



FISCAL YEAR 2003 ANNUAL PERFORMANCE PLAN

The IRS Mission

Provide America's taxpayers with top quality service by helping them to understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all.

February 4, 2002

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INTERNAL REVENUE SERVICE
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I. Strategic Context

I.A. Mission/Goals/Objectives

IRS' mission is *to provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all*. This mission statement accurately describes the IRS' role, as well as the public's expectation as to how we should perform that role. In the United States, the Congress passes tax laws and requires taxpayers to comply with them. The taxpayer's role is to understand and meet their tax obligations - and most do, since roughly 98% of the taxes collected are paid without active intervention by the IRS. Its role is to help the large majority of taxpayers who are willing to comply with the tax law, while seeing to it that the minority who are unwilling to comply are not allowed to burden their fellow taxpayers. The IRS recognizes that it must meet the highest of standards in performing this role, which means that all of the IRS services should be seen by the people who receive them as comparable in quality to the best they get elsewhere.

While a mission statement and clarification of the public's expectations are fundamentally important, it is equally important that the IRS defines the specific goals and objectives needed to achieve its mission. In a practical sense, these goals and objectives represent what the IRS is striving to achieve and how it will judge its success both qualitatively and quantitatively.

The IRS has formulated three strategic goals.

- Top-quality service to each taxpayer in every interaction
- Top-quality service to all taxpayers through fair and uniform application of the law
- Productivity through a quality work environment

If progress is made on all three of these goals, the IRS can be confident that it is moving toward achieving its mission and meeting the public's expectations.

Major strategies are the approaches the IRS will use to achieve progress on its strategic goals over a two-to three-year timeframe. The IRS has developed these strategies based upon senior management's consideration of internal research and analysis, external stakeholder input, Treasury Inspector General for Tax Administration (TIGTA) and General Accounting Office (GAO) recommendations, and employee input on the key trends, issues, and problems that most affect the IRS.

Guiding principles help link the IRS mission and goals to the everyday actions of IRS employees from all levels of the organization. It will take thousands of everyday actions to accomplish IRS goals, and the guiding principals help employees understand the relationship between their actions and its goals. The relationship between the IRS Mission, Goals and Objectives, Guiding Principles and Major Strategies is shown in Figure 1.

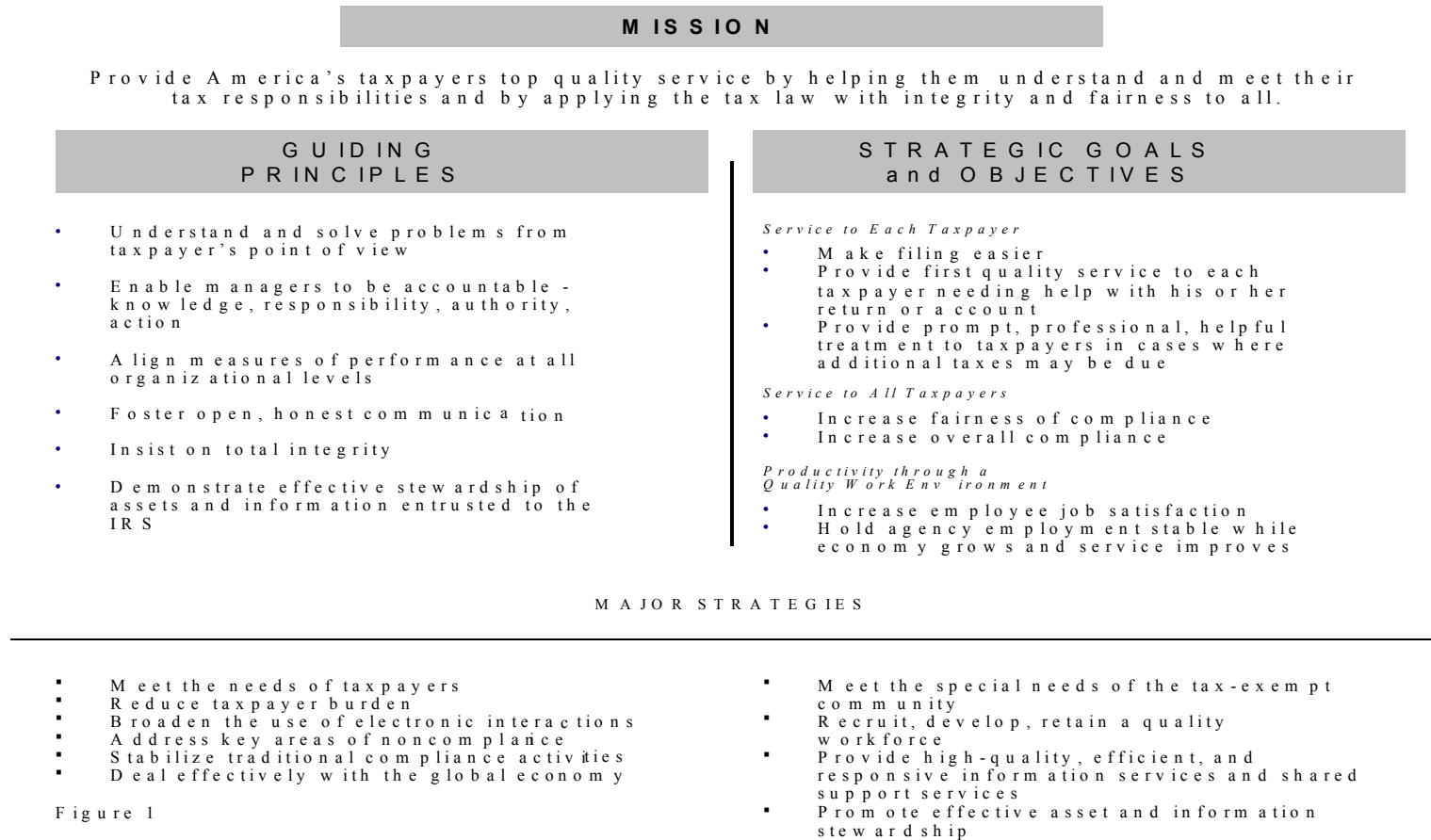


Figure 1

I.B. Pre-Filing, Filing, and Post-Filing Services

The IRS FY 2003 Annual Performance Plan (APP) presents the high-level programs and services that the agency carries out to accomplish its mission, goals and strategies outlined in its strategic plan. The APP is the linkage between the Strategic Plan and the program activities in the budget request.

The IRS provides three primary services: Pre-Filing Services, Filing Services and Post-Filing Services.

Pre-Filing Services – These are services that are provided to a taxpayer before the return is filed to assist in filing a correct return. A very strong emphasis is being placed on pre-filing education and assistance of all customers. In general, the focus is on increasing time spent on education and outreach, increasing volunteer support time and locations, expanding pre-filing agreements and rulings, and enhancing pre-filing customer support through electronic media.

Filing Services - These are services provided to a taxpayer in the process of filing a return and paying taxes, including electronic filing and payment. The focus is on decreasing paper returns processed and increasing electronic returns, increasing the use of electronic payments, increasing telephone and in-person customer service levels and volume of calls answered.

Post-Filing Services – Traditionally known as compliance, these services are provided to a taxpayer after a return is filed to identify underreporting, non-filing and nonpayment. The focus is on improving quality of examinations and investigations, increasing offers in compromise, and increasing case closures.

These services are applicable to all taxpayers including wage earners, small businesses, self-employed individuals, large and mid-size businesses, tax-exempt organizations and government entities. The three primary services are also sub-divided into ten programs that are explained in the Program Activities section.

To ensure a consistent approach to planning for and delivering the agency's strategic goals, IRS organizes its strategy and program plans, budgets, financial plans and reports, and accounting systems around these three services and their underlying programs. In addition, to ensure that IRS can achieve its mission and goals, the IRS Commissioner and his Senior Management Team established a new Strategic Planning, Budgeting and Performance Management (SPBPM) process in early 2000. This new process significantly changes the prior strategic planning and performance management practices.

With the SPBPM process, each organizational unit commissioner or chief executive officer works with his/her senior management team to develop and execute the Strategy and Program Plans that best address the trends, issues and problems that impact their taxpayers and that accomplish the agency mission and goals. Strategy and Program Plans along with the Strategic Plan provide the basis for developing annual performance plans, for formulating program justification, and for evaluating and reporting progress in meeting annual performance targets.

The APP reflects the major strategies, operational priorities, and improvement projects developed by every IRS organizational unit in their Strategy and Program Plans that are designed to provide internally specific program direction. A brief description of the IRS strategic framework is included to set the context for IRS' services and programs. It is followed by sections on each of the IRS major programs that describe its annual performance goal and what specific activities, resources and performance measures will be accomplished in FY 2002 and FY 2003 to achieve these goals.

This performance plan projects significant increases in performance indicators for most programs in fiscal years 2002 and 2003. These increases are projected based on goals we have established for increased productivity and effectiveness as a result of the new more focused organization structure and the benefits from technology investments and other improvement projects. They are very aggressive goals and they depend on many assumptions. Therefore, while we are reasonably confident of the positive trend and are committed to achieving these stretch goals, it is likely that some of these goals will not be achieved during the projected time frames. Also, many of the goals are presented as precise numbers so that they can be traced to underlying source documents and calculations. This apparent precision in presentation does not imply that actual results are precisely predictable.

I.C. Programs/Performance Goals

The Pre-Filing, Filing, and Post-Filing services are supported by ten high level programs. To ensure a consistent approach to planning for and delivering our strategic goals and objectives, we organize our strategy and program plans, budgets, financial plans and reports, and accounting systems around these three service categories and their supporting programs. These programs are shown below along with the corresponding annual performance goal. The subsequent sections of the Annual Performance Plan describe in more detail what specific activities, resources and performance measures will be accomplished in FY 2002 and FY 2003 to achieve these annual goals.

Pre-Filing Taxpayer Assistance and Education - *The IRS will provide taxpayers with greater access to information, assistance and support before they file their tax return.* – IRS is taking action to promote taxpayer education, improve outreach education efforts and expand partnerships with key stakeholders. The IRS is offering enhanced electronic services including the IRS Website, electronic filing, and electronic payments. The IRS is working to have more effective pre-filing guidance and to reduce tax law complexity.

Filing and Account Services - *Improve the quality of the service provided to taxpayers in filing their tax returns.* – The IRS is modernizing its work processes and expanding its partnership with individuals and organizations by providing help filing returns, increasing electronic filing options, ensuring that notices and letters are more understandable, expanding our assistance into different languages, and paying refunds faster.

Compliance Services - *Identify and correct all substantive errors in filed tax returns, reporting of income, and payment of taxes.* – The IRS will

emphasize improving compliance through better and more targeted taxpayer education, better reporting, voluntary agreements, improved regulations, earlier intervention and reducing the length of the appeals process. The IRS will stabilize the level of enforcement activity and take proper action in each case.

Research and SOI - *Perform strategic and tactical research to anticipate and identify compliance and tax administration problems.* – The IRS will collect and tabulate data with respect to individuals, corporations, partnerships, sole proprietorships, estates, nonprofit organizations and trusts. Approaches to measuring taxpayer compliance are being explored and developed.

Information Services – *Provide the information systems services required by IRS activities to effectively administer the nation's tax law.* – The IRS is consolidating notice printing and mid-range computers, and developing and managing telecommunication services. To keep reasonable pace with industry software advances, IRS will replace a portion of its desktop/laptop inventory annually. In addition, the IRS will perform ongoing maintenance of hardware, software, virus detection, and other standard commercial applications.

Information Systems Improvement Programs - *Develop and implement systems projects that respond to the specific requirements of one or more of the taxpayer groups served by IRS Operating Divisions.* – The IRS will improve its financial and administrative systems, ensure the security, privacy and reliability of its Information Technology (IT) infrastructure, and standardize and expand the range of services to taxpayers and Service employees.

Business Systems Modernization - *Effectively manage the contract resources that support capital asset acquisition of business systems modernization.* – The IRS will make fundamental improvements in the way it carries out business by taking advantage of all appropriate technology. The IRS has published and updated a comprehensive technology blueprint to guide it through this multi-year project. Initiatives to expand electronic government and increase electronic filing alternatives will be pursued.

Earned Income Tax Credit - *Expand customer service and enforcement activities to reduce erroneous filings and payments associated with the Earned Income Tax Credit.* – The IRS is focusing on outreach and education of tax preparers, compliance visits by agents, assessing penalties, and criminal investigations of EITC fraudulent claims.

Shared Services Support - *Effectively provides the logistical services required by IRS activities to administer the nation's tax laws.* – The IRS is reengineering standardized processes and identifying areas to continue expanding electronic government. E-commerce alternatives are being explored to improve customer access, streamline vendor interactions and ensure effective use of stewardship and property assets.

General Management and Administration - *Provide effective leadership and direction in the administration of the nation's tax laws.* – The IRS' organization and business practices are designed to reflect its customer's needs and address significant human capital issues. Competitive sourcing alternatives are being identified and financial systems are being updated to improve financial performance. The IRS is fully integrating

its strategic planning, budget and performance management process to more effectively achieve its strategic goals and objectives.

II. Key Strategic Issues

Our success in achieving the IRS mission, goals, and objectives is influenced by the environment in which we operate. The IRS budget request is based upon key drivers identified through our Strategic Planning, Budgeting and Performance Management process that are directly related to accomplishment of our basic mission. The IRS Annual Performance Plan describes the high-level programs or services that the agency carries out to accomplish its mission, goals, objectives, and strategies as expressed in the IRS Strategic Plan. The most significant challenges have been organized around twelve themes:

Service to Taxpayers. Providing taxpayers with consistent, accurate account information, timely processing of tax returns, and immediate account resolution with the minimum number of encounters with employees. Providing taxpayers with easy access to our toll-free number with minimal use of voice mail and recorders. Providing convenient office hours and locations and accommodations for non-English speaking taxpayers.

Communication with Taxpayers. Improving our written communications to make them easier to understand and more responsive to taxpayer needs. Improving the timeliness of notices sent to taxpayers.

Pre-Filing Agreements. Striving to resolve more taxpayers' issues before they file, particularly in light of the length of time required by the traditional examination, appeal, and litigation process.

Electronic Tax Administration. Continuing to expand our capabilities to accommodate record numbers of taxpayers that are choosing to file electronically. Continually improving our website as a source of tax forms and tax information.

Complexity of the Tax Law. Striving to remove as much complexity from the tax law as possible for America's taxpayers.

Global Trading. Continually improving our globalization efforts as large and mid-sized business taxpayers continue to grow significantly in global trading and U.S. multi-national corporations are increasingly involved in foreign activities.

Compliance Services. Striving to decrease our cycle times and provide more consistent resolutions to issues for our large and mid-size customers. Improving our methods of explaining the Appeals process and taxpayer rights.

Areas of Low Compliance. Striving to increase our examination coverage and improve the compliance rate of individual taxpayers and small business and self-employed taxpayers. Increasing our focus on refund related crimes as we move to electronic tax administration and expansion of

entitlement programs such as the Earned Income Tax Credit, we must.

Measuring Compliance. Developing regular and up-to-date measures of overall compliance and compliance by major customer sectors.

Human Resource Issues. Increasing our ability to retain and replace employees while facing a competitive labor market, negative image, and constraints on Federal compensation. More than 50% of IRS employees in mission-critical front-line positions are eligible for retirement.

Technology in Support of Business Operations. Continuing to improve our technology to provide a level of service to taxpayers consistent with today's standards for a finance-oriented, public service institution.

Shared Services in Support of Business Operations. Striving to renovate our facilities that are old or not compliant with the Americans with Disabilities Act (ADA). Assuring that all buildings provide adequate security. Continuing to update personnel and payroll processing systems and services.

III. Relationship Between the Strategic Plan and the Annual Performance Plan

The tax administration function is large and complex. The IRS developed goals and strategies to address these complex functions and performance goals to address our progress on our goals and toward achievement of the IRS mission. The following table depicts how all of our Performance Goals support and address our three strategic goals that in turn support four of the Treasury Strategic Goals.

Treasury Strategic Goal	IRS Strategic Goal	IRS Performance Goals
<p>Collect revenue due to the Federal Government</p> <p>Support the Achievement of Business Results</p> <p>Improve Customer Satisfaction</p> <p>Improve Employee Satisfaction</p>	Service to Each Taxpayer	Provide taxpayers with greater access to assistance before they file their tax return.
		Improve the quality of the service provided to taxpayers in filing their tax returns.
		Identify and correct all substantive errors in the filing of tax returns, reporting of income, and payment of taxes.
	Service to All Taxpayers	Provide the logistical services required by IRS activities to administer the nation's tax laws.
		Provide effective leadership and direction in the administration of the nation's tax laws.
	Productivity through a Quality Work Environment	Perform strategic and tactical research to anticipate and identify compliance and tax administration problems.
		Expand customer service and enforcement activities to reduce erroneous filings associated with the EITC.
		Develop and implement systems projects that respond to the specific requirements of one or more of the taxpayers groups served by the IRS Operating Divisions.
		Provide the information systems services required by IRS activities to effectively administer the nation's tax law.
		Manage the resources associated with non-labor costs that support capital asset acquisitions of information technology systems.

II. Program Activities

PRE-FILING TAXPAYER ASSISTANCE AND EDUCATION

Performance Goal: *The IRS will provide taxpayers with greater access to information, assistance and support before they file their tax return.* – IRS is taking action to promote taxpayer education, improve outreach education efforts and expand partnerships with key stakeholders. The IRS is offering enhanced electronic services including the IRS Website, electronic filing, and electronic payments. The IRS is working to have more effective pre-filing guidance and to reduce tax law complexity.

FY 2002

Pre-filing services provide taxpayers with the information, assistance, and support they need to understand and fulfill their tax obligations before they file their tax returns. Pre-filing services attempt to reduce taxpayer burden and increase tax compliance by making it easier for taxpayers to understand and comply with their tax responsibilities. IRS will take actions to promote taxpayer education, partnering with stakeholders, pre-filing assistance, early issue resolution, and improved customer service. Emphasis will be placed on improving outreach education efforts and establishing and expanding partnerships with key stakeholders. These activities have the potential to reach more customers than traditional one-on-one service. IRS will use a web-based system to identify, prioritize, and manage efforts to address sources of taxpayer problems and to track results. IRS will also implement recommendations for improvement from other sources, including Citizen Advocacy Panels and customer satisfaction surveys. This will help IRS understand customer needs and priorities, identify emerging areas of noncompliance and develop systemic and procedural improvements.

IRS will initiate early contact with start-up businesses to make sure they are aware of their tax obligations, sources of available assistance, and the consequences of noncompliance. These efforts will foster compliance before these new businesses incur substantial tax liabilities they may be unable to pay. IRS will also develop and deliver educational products for other taxpayers and practitioners that reflect tax law changes; perform analyses of our educational capabilities and develop products to fill major gaps; and develop and market national education material to target specific compliance issues, including a tax scheme education program. In addition, IRS will inventory various field practitioner educational activities to determine the most effective outreach programs and the most efficient methods of delivery.

FY2003

The IRS will continue to expand and improve programs that focus pre-filing efforts on reducing taxpayer burden and increasing tax compliance. Education and outreach programs will focus on providing products and services tailored to the needs of specific taxpayers, using more convenient, easy-to-use distribution channels, and designing self-help options, such as kiosks and web-based refund inquiries. The IRS will enhance public websites and continue to provide outreach to the private sector and the media. Workshops and published products will be enhanced through the use of electronic and interactive mechanisms to keep pace with services available through the private sector. Partnerships will be enhanced and expanded through programs that work to build relationships with organizations and groups that are actively involved in tax administration and who interact regularly with taxpayers. Volunteers will be trained and equipped to assist taxpayers in meeting their annual tax filing requirements.

IRS will work to improve the functionality of our web-site by developing a web-based customer satisfaction survey and incorporating video streaming into our web products. IRS will also develop and deliver e-learning products such as on-line Continuing Professional Education credits for stakeholder groups. IRS will continue to clarify and simplify notices and correspondence so they are easier to understand. Twenty revised notices are scheduled for January 2003 implementation.

IRS will increase resources for the Electronic Tax Administration Program to support significant growth in electronic transactions and communications. Technology enhancements will include eliminating requirements for separate signature documents and continuously improving the IRS web site to provide a broader set of web services. IRS will broaden payment options including electronic acknowledgment for direct debit users, electronic withdrawals for installment agreements and credit card expansion. IRS will allow electronic filing of a full range of returns to increase the number of returns filed electronically to meet the Congressional goal of receiving 80% of all tax information returns electronically by 2007. IRS will target taxpayers, tax practitioners and distribution channel partners through marketing and educational programs. Additionally, IRS will service the practitioner community through the establishment of practitioner support centers.

Resource Summary

	FY 2001	FY 2002	FY 2003
Budget Authority (\$000s)	\$570,401	\$610,969	\$584,142
Direct FTE	3,280	4,179	4,249

Critical Measures Summary^{1, 2}

Pre-Filing Taxpayer Assistance and Education ³					
	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
	Actual	Actual	Actual	Performance Plan	Performance Plan
1. Education & Outreach Staff Years	N/A	1,082	1,224	1,609	1,733
2. Number of Taxpayers Assisted Direct	N/A	N/A	N/A	3,817,000	4,708,000
3. Number of Taxpayers Assisted Indirect	N/A	N/A	N/A	13,400,000	29,400,000
4. Volunteer Hours Reported (000s)	2,456	2,275	2,790	2,908	3,514
5. Number of Volunteer Locations	18,263	18,147	18,238	18,375	18,375
6. Small Business Outreach Events/Activities	N/A	2,200	1,181	2,200	2,500
7. EP/EO Determination Letters	114,598	109,461	109,326	190,800	215,300
8. Total Number of Private Letter Rulings Completed	N/A	1,913	2,428	2,000	2,100
9. Advanced Pricing Agreements and Pre-Filing Agreements	50	67	73	110	117
10. Number of Alternative Treatment Initiatives ⁴	N/A	2700	3104	510	510
11. Electronic Tax Law Questions Answered	251,100	303,758	264,448	223,877	223,877
12. Number of Taxpayer Advocacy Projects	N/A	88	92	88	88

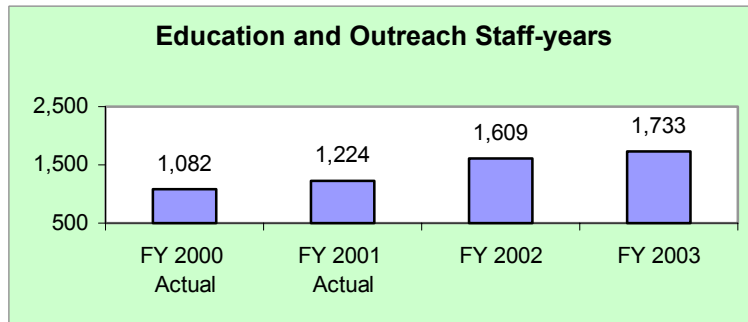
1 FY2001 targets and actual performance for IRS's balanced performance measures will be reported in the FY2001 Treasury Annual Program Performance Report, which is to be provided to Congress by the 29th of March 2002.

2 This performance plan projects significant increases in performance indicators for almost all programs in fiscal years 2001 and 2002. These increases are projected based on goals we have established for increased productivity and effectiveness as a result of the new more focused organization structure and the benefits from technology investments and other improvement projects. They are very aggressive goals and they depend on many assumptions. Therefore, while we are reasonably confident of the positive trend and are committed to achieving these stretch goals, it is likely that some of these goals will not be achieved during the projected time frames. Also, many of the goals are presented as precise numbers so that they can be traced to underlying source documents and calculations. This apparent precision in presentation does not imply that actual results are precisely predictable.

3 Since many of the IRS pre-filing activities are either new or greatly expanded in scope, the performance measures for pre-filing programs are not yet complete and those that are presented are less reliable than those for other programs.

4 Through FY 2001, this measure counted the number of establishments participating in voluntary agreements. Beginning in FY 2002, the measure only counts the number of new agreements.

Measure 1: Education and Outreach Staff years

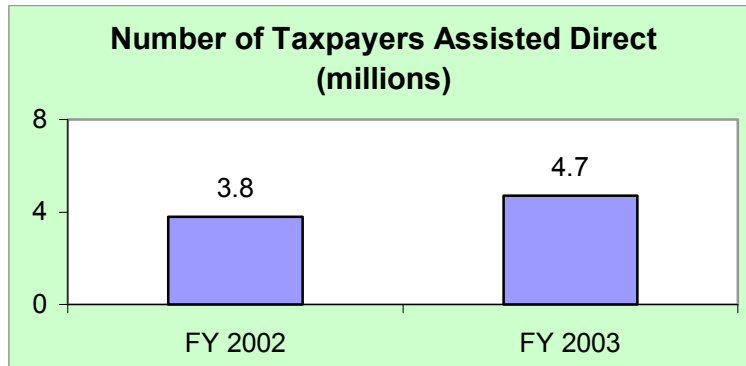
**FY 2002**

IRS will apply 1,609 staff years to education and outreach, a 31% increase. This staffing level will enable the IRS to continue expansion of education and outreach activities. The IRS will continue to hire education and outreach employees, directing some of these resources toward establishment of field infrastructure for new programs. The IRS will collaborate with key internal and external stakeholders, and develop coordinated initiatives with examination, voluntary compliance, determination and technical functions. The IRS will pursue strategic expansion of partnerships with practitioners, Federal and State agencies, financial and educational institutions, large employers, volunteer and community organizations, and service providers to leverage information communication and distribution channels.

FY2003

Over 1,700 staff years will be devoted education and outreach, an increase of 8 percent. IRS will expand partnerships with practitioners Federal and State agencies and other key stakeholders. Staffing increases will be applied to filing season assistance programs and virtually eliminate the traditional reliance on compliance employees (e.g., revenue agents and revenue officers) to provide direct assistance at walk-in locations and toll-free call sites.

Measure 2: Number of Taxpayers Assisted Direct



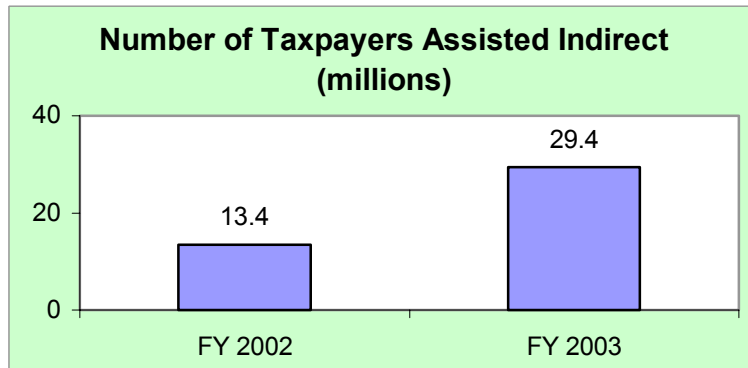
FY 2002

Addition of this new measure beginning in FY 02 will allow IRS to capture and report on providing direct assistance to 3.8 million taxpayers. IRS will increase the number of taxpayers assisted by leveraging the use of resources and through the maturation of partner relationships. The shift in resources toward Outreach activities increases the number of taxpayers that can be reached.

FY 2003

Through a more targeted approach to customer service, IRS will increase the number of taxpayers assisted to 4.7 million, a 23 percent increase. IRS will utilize demographic and market research information to reach more targeted segments of the population. This same information will allow partner identification that will enable IRS to assist groups that historically have not been reached.

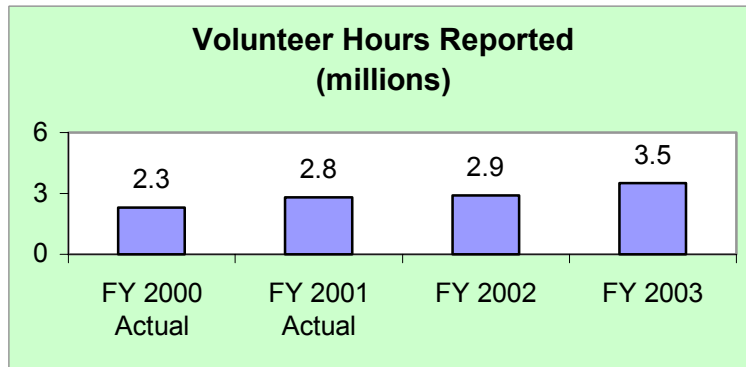
Measure 3: Number of Taxpayers Assisted Indirect

**FY 2002**

Addition of this new measure beginning in FY 02 will allow IRS to capture and report on providing assistance indirectly to 13.4 million taxpayers. IRS will increase the number of taxpayers assisted by leveraging the use of resources and through the maturation of partner relationships. The shift in resources toward Outreach activities increases the number of taxpayers that can be reached.

FY 2003

Through a more targeted approach to customer service, IRS will increase the number of taxpayers provided assistance indirectly to 29.4 million, an increase of 119 percent. IRS will utilize demographic and market research information to reach more targeted segments of the population. This same information will allow partner identification that will allow IRS access to groups that historically have not been reached. New products and services developed for specific market segments, together with e-government technology tools, will allow IRS to target its marketing efforts and leverage limited resources through partnering efforts with industry trade associations, professional organizations and other key stakeholders.

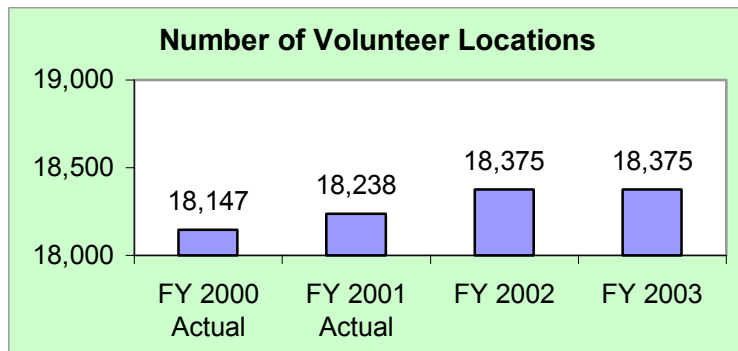
Measure 4: Volunteer Hours Reported**FY2002**

Recognizing that partnership efforts with volunteers are a proven method of leveraging external resources to increase service to taxpayers, the IRS will work with external stakeholders to increase the number of hours of assistance provided by volunteers to 2.9 million. IRS' strategy of partner self-sufficiency will shift responsibility for recruiting, training, and retaining volunteers to the partners. The IRS will develop a comprehensive volunteer strategy that will identify new recruitment sources, determine the appropriate skill mix and application, and develop ways to increase volunteer retention.

FY 2003

Volunteers will provide 3.5 million hours of assistance, an increase of 21 percent. IRS will continue to shift responsibility for recruiting, training, and retaining volunteers to its partners. This will allow IRS to transition resources toward initiating new partners while maintaining existing relationships. The emphasis on Outreach activity will continue.

Measure 5: Number of Volunteer Locations

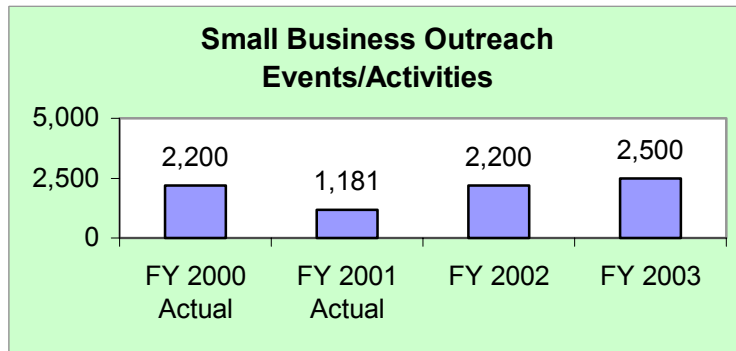
**FY2002**

The number of sites where volunteer assistance is provided will increase to 18,375. In addition, the IRS will initiate broader long-term strategies designed to provide taxpayers with the right services at the right time and in the right place. Education and outreach programs will shift in focus toward offering products and services tailored to specific taxpayer needs, using more convenient, easy-to-use distribution channels, and self-help options, such as kiosks and web-based refund inquiries. With additional resources, the IRS will continue its focus on offering products and services tailored to specific taxpayer needs. The IRS will take actions to expand the corporate volunteer program, expand the number of co-located sites, and finalize and implement new site selection criteria.

FY 2003

The number of volunteer assistance sites will remain at 18,375. The number of sites for Tax Counseling for the Elderly (TCE), for example, is not expected to grow significantly according to AARP. IRS will continue to emphasize Outreach and leveraged activities. The use of leveraged activities allows the number of hours of assistance to increase without an increase in the number of sites. Partner selection will be based upon a number of factors, including access rates (both in volume and ability to target).

Measure 6: Small Business Outreach Events and Activities

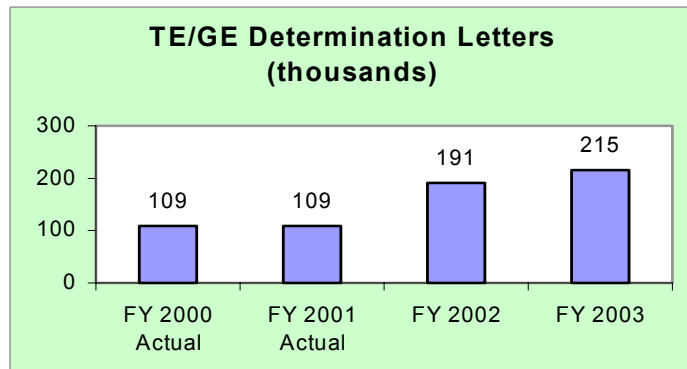
**FY2002**

IRS will continue to expand and enhance the use of pre-filing outreach events and activities to assist small business taxpayers. The number of events/activities will increase to 2,200, taking IRS back to the FY 00 level, and include 1,000 Small Business Workshops. Similar events include practitioner education and liaison meetings, trade shows and public speaking engagements and presentations. In addition to using on-line workshops to leverage interactive, self-help tools, IRS will make expanded use of the marketing network of the National Association of Enrolled Agents (NAEA).

FY2003

The total number of outreach activities and events will increase by 300 to 2,500. Most of this increase will involve targeted efforts to meet the specialized needs of key market segments through expanded use of e-government tools and partnerships with practitioners, trade associations and other key stakeholders.

Measure 7: TE/GE Determination Letters

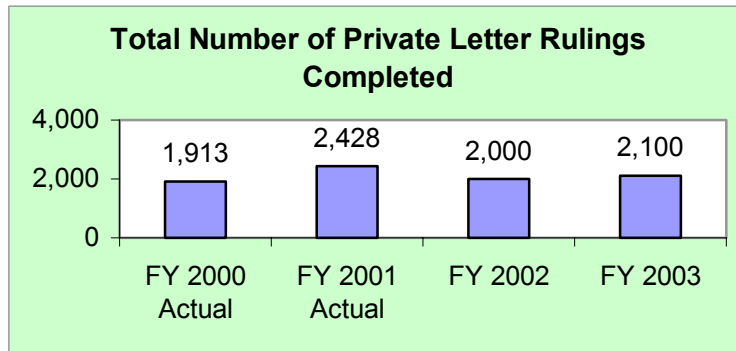
**FY2002**

The number of determination letters is expected to increase to 191,000, an increase of 75 percent. IRS will continue to timely process customer-initiated requests for employee plan (EP) and exempt organization (EO) determinations. Although some growth is forecast in EO determination requests, the primary driver of growth is a projected increase in EP determination receipts to 145,000 applications (from 30,500 in FY2001) because of pension law changes. IRS will manage this increasing workload by promoting the adoption of pre-approved language plans, which are subject to expedited processing; enhancing technical screening processes; and diverting examination resources to determination processing. Efforts are also focused on expediting the determination process by initiating telephone contacts with customers to secure missing items, and through an ongoing initiative to centralize determination processing.

FY2003

The number of determination letters is expected to increase to 215,000, an increase of 13 percent. IRS will continue to timely process customer-initiated requests for determinations. Projected case closures will continue to grow as IRS completes the prior-year inventory and expects to receive another 117,000 determination applications. As receipts decline later in the year and the workload shifts from individually designed plans, which require more thorough review, to adopters of pre-approved plans, inventory levels will diminish and resources will be shifted back to examination.

Measure 8: Total Number of Private Letter Rulings Completed

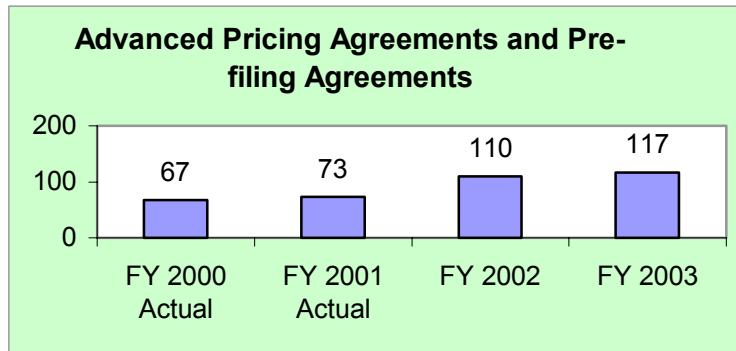
**FY2002**

IRS will continue to focus on the Advance Case Resolution program and private letter rulings. IRS expects to issue 2,000 private letter rulings. IRS expects an upward trend in demand for the Advance Case Resolution program and private letter rulings to develop in future years, and will adjust resources as necessary to meet this demand, including training more existing attorneys in the development of private letter rulings. Private Letter Rulings are a tool whereby taxpayers and the IRS resolve potential issues up-front, reducing the need for post-filing compliance work. This reduces taxpayer burden and brings greater security to the tax filing process for both taxpayers and the IRS.

FY2003

IRS expects to complete 2,100 private letter rulings, a 5 percent increase. The IRS expects the upward trend in demand for the Advance Case Resolution program and private letter rulings to continue, and will continue to adjust resources as necessary to meet this demand, including training more existing attorneys in the development of private letter rulings. Growth in private letter rulings should be mitigated to some degree by growth in the Published Guidance area.

Measure 9: Advanced Pricing Agreements and Pre-Filing Agreements

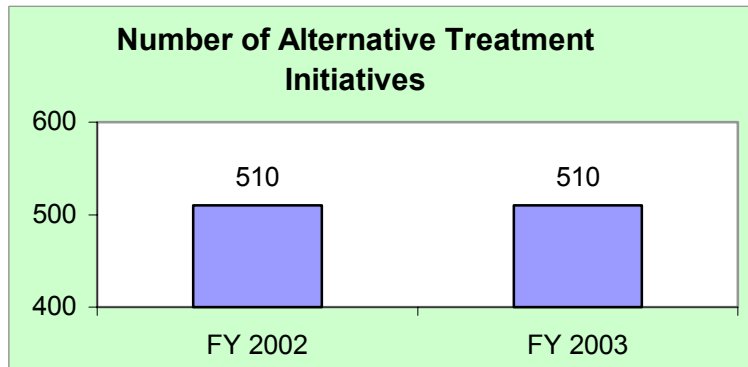
**FY2002**

The number of Pre-filing and Advance Pricing agreements is expected to increase to 110, with Advance Pricing Agreements constituting the majority of these actions (90). The business results anticipated include improved customer satisfaction, reduced time to complete examinations, and improved voluntary compliance. The Industry Issue Resolution Pilot is scheduled for completion in the first quarter with pilot evaluation following. Pre-filing agreements and Advanced Pricing Agreements are tools for taxpayers and the IRS to come to agreement on complicated tax issues up-front. This reduces taxpayer burden, sets a model for other businesses to follow in structuring their transactions, and increases voluntary compliance.

FY2003

The number of Pre-filing and Advance Pricing agreements is expected to increase to 117, with Advance Pricing Agreements constituting the majority of these actions (95). The business results anticipated include improved customer satisfaction, reduced time to complete examinations, and improved voluntary compliance. The Industry Issue Resolution Pilot is scheduled for completion in the first quarter with pilot evaluation following. While this program does not produce pre-filing agreements per se, the resolution of issues through this process reduces the time expended on post-filing compliance efforts. Expansion of participation will further reduce costs and burdens for taxpayers and the IRS, and aids in eliminating uncertainty involving tax treatment. IRS will continue marketing pre-filing agreements to taxpayers.

Measure 10: Number of Alternative Treatment Initiatives

**FY2002**

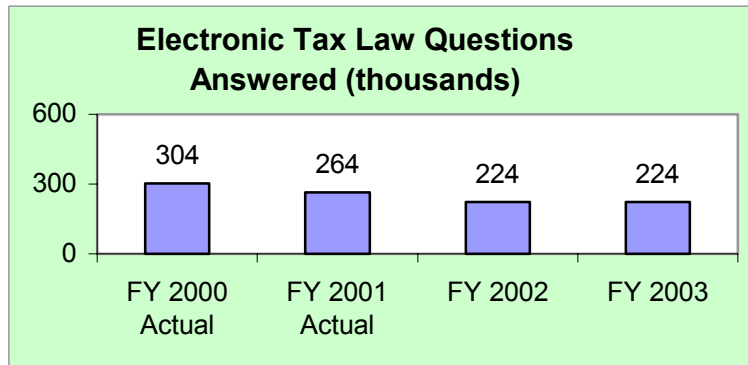
This measure, new in FY 02 will allow IRS to further identify improvements in service to all taxpayers by initiating 510 new voluntary agreements between IRS and industries or business groups.

Note: Through FY 01, this measure counted the number of establishments participating in voluntary agreements. In FY 02, the measure will only count the number of new agreements.

FY2003

IRS will maintain the expanded program and continue to aggressively market voluntary agreements to industry and professional organizations -- including the use of electronic filing and payment options (e.g., Internet Electronic Federal Tax Payment System). Areas of special emphasis will include industry-wide prototype agreements, e-government applications and market research aimed at identifying key areas of non-compliance.

Measure 11: Electronic Tax Law Questions Answered



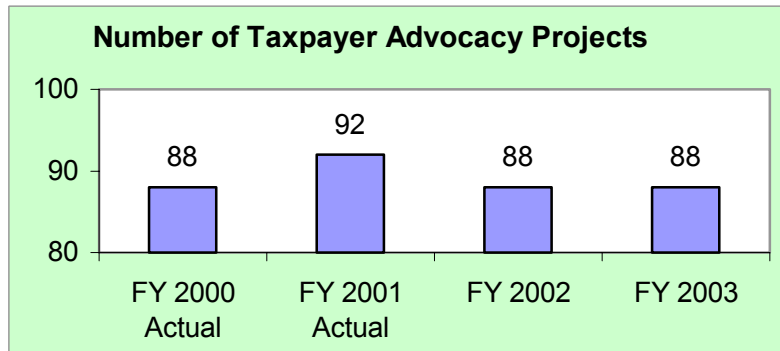
FY2002

Enhancements to the Electronic Tax Law Assistance program -- including additional training and system upgrades will continue to positively impact demand in FY 02, lowering it approximately 15% to 224,000.

FY2003

The volume of questions answered via email is expected to remain at 224,000. Flat growth is expected due to improved customer access at both Field Assistance (walk-in) locations and through the Toll-Free Telephone network. Continuing efforts to automate some types of inquiries (e.g., refund inquiries) and taxpayer preferences for direct, real-time responses may also contribute to workload reductions. Despite reduced volumes, email assistance remains an important communications channel for many taxpayers -- especially those with complex tax situations or highly technical tax law questions.

Measure 12: Number of Taxpayer Advocacy Projects

**FY2002**

IRS will continue to identify the sources of taxpayer problems through the Advocacy program and will work internally to address them. It is difficult to project the total number of advocacy projects in a given fiscal year. However, suggestions for new advocacy projects will be submitted, managed, and tracked in the advocacy database.

FY2003

IRS will continue to identify the sources of taxpayer problems and will work internally to address them through the systemic advocacy program. The National Taxpayer Advocate is restructuring the program to focus on the very different needs of businesses, and individual taxpayers. In addition, the NTA is developing and implementing a workload planning and prioritization methodology, taking into account the sources and volumes of problems taxpayers bring to the Taxpayer Advocate Service, issues with high error rates on tax returns, and tax simplification issues. It is difficult to predict the number of systemic advocacy projects in a given fiscal year. Project suggestions will be tracked, developed, and selected within the strategic framework, as resources permit.

FILING AND ACCOUNT SERVICES

Performance Goal: *Improve the quality of the service provided to taxpayers in filing their tax returns.* – The IRS is modernizing its work processes and expanding its partnership with individuals and organizations by providing help filing returns, increasing electronic filing options, ensuring that notices and letters are more understandable, expanding our assistance into different languages, and paying refunds faster.

FY 2002

The IRS will receive and process over 173 million paper and 53 million electronic primary returns. IRS will continue to focus on accurate and timely processing of tax returns and payments along with the electronic filing and payment of taxes. The IRS will continue to expand e-file options, making new forms available for electronic filing and enabling the majority of all taxpayers to file electronically. Credit card, phone and direct debit payment options will be developed and promoted. Almost 2 million payments will be received via debit/credit card transactions and over 67 million payments will be processed through the Electronic Federal Tax Payment System. The IRS will respond to more than 18 million taxpayer correspondence inquiries, answer 33.7 million telephone calls via live assistants, and handle some 75 million calls via automated systems. The IRS will continue efforts to better align telephone operation measures with IRS strategic direction. IRS will baseline telephone customer service and productivity measures to ensure consistency with industry standards and improve monitoring of service delivery and resource utilization.

IRS is on schedule to continue the differentiation of business and individual returns to provide more specialized service to taxpayers. The IRS's ten Submission processing centers will continue to transition to eight individual tax return sites and two business tax return sites. Teletax automated toll-free telephone service will continue to be available 24 hours a day, 7 days a week. Additional modifications to the intelligent call routing system will improve taxpayer access levels and customer satisfaction by routing calls to sites dedicated to specific types of work, as well as to specialized Customer Service Representatives.

FY 2003

The IRS will receive and process over 170 million paper and 60 million electronic primary returns. The IRS will respond to almost 19 million taxpayer written inquiries, answer 36.8 million telephone calls via live assistants, and handle some 66 million calls via automated systems. Automated toll-free telephone service will continue to be available 24 hours a day, 7 days a week. Additional modifications to the intelligent call routing system will improve taxpayer access levels and customer satisfaction by routing calls to sites dedicated to specific types of work, as well as to specialized Customer Service Representatives. Taxpayers with limited English language proficiency will be provided with products and

services to assist them in meeting their tax obligations. Initial efforts will be focused on Spanish speaking taxpayers, but will expand to include other languages by FY 2005.

Employees will be thoroughly trained to develop greater expertise within their defined area of specialization. Field Assistance employees will be trained to direct taxpayers who the employee is unable to assist to other IRS employees or resources who can provide the needed service. To expand coverage to more taxpayers, IRS will add new sites, relocate existing facilities to larger locations, renovate current facilities, and deploy mobile units and information kiosks. Services will also be provided in alternative locations convenient for taxpayers, such as shopping malls, and co-located with other Federal or state agencies. Hours of operation will be expanded, appointments will be scheduled at times convenient to taxpayers, and multilingual services will be offered. Implementing these actions will increase the availability and quality of face-to-face services for taxpayers.

An initiative to enhance the current Remittance Transaction Research (RTR) system to provide payment information on-line as soon as possible after receipt of payment will enable IRS to balance account transactions faster and resolve errors without the need to contact the taxpayer. Enhanced RTR will eliminate the need to notify a taxpayer that their payment has been misplaced and request a copy of the cancelled check. System enhancements (e.g. Notice Viewing) will provide employees access to accurate, up-to-date electronic information about taxpayers' accounts and the ability to adjust accounts immediately. All correspondence will be reviewed before being mailed to the taxpayer. An enhanced notice process will minimize the need for repeat contacts and result in more timely responses that will reduce telephone inquiries and written correspondence.

Resource Summary

	FY 2001	FY 2002	FY 2003
Budget Authority (\$000s)	\$1,598,832	\$1,657,342	\$1,761,472
Direct FTE	31,140	31,123	31,635

Critical Measures Summary^{1,2}

Filing and Account Services ³					
	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
	Actual	Actual	Actual	Performance Plan	Performance Plan
13. Individual 1040 Series Returns Filed (paper) (000s)	95,380	92,319	90,586	86,000	81,000
14. Business Returns Filed (paper) (000s)	79,690	81,588	83,153	87,051	88,648
15. Electronic 1040 Series Returns Filed (000s)	29,320	35,365	40,222	46,000	52,900
16. Electronic Business Returns Filed (000s)	3,220	3,220	6,261	6,800	7,500
17. Total Primary Returns Filed Paper and Electronic	207,610	212,492	220,222	225,851	230,048
18. Percent Individual Returns Filed Electronically	23.4%	27.8%	30.7%	35.0%	39.0%
19. Number of Information Returns Filed Electronically	N/A	N/A	N/A	474,700	614,300
20. Percent of Information Returns Filed Electronically	N/A	N/A	N/A	34%	42%
21. Number of Non-Paper Information Returns (Mag. Media)	N/A	N/A	N/A	875,199	772,956
22. Percent of Non-Paper Information Returns (Mag. Media)	N/A	N/A	N/A	62%	53%
23. Number of Federal Tax Payment Transactions Paid Electronically (000s)	55,320,000	63,380,000	64,366,000	67,438,000	69,650,000

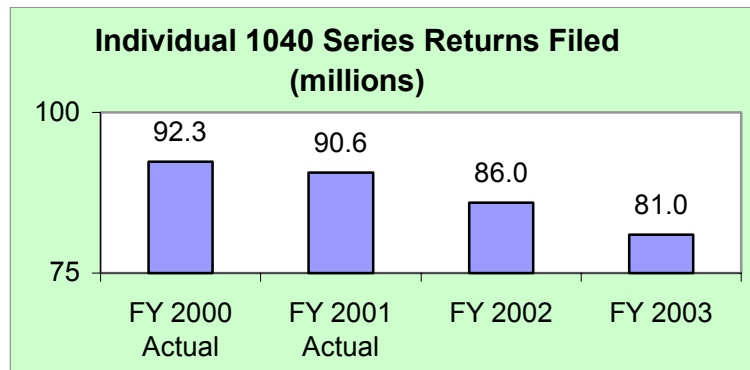
¹ FY2001 targets and actual performance for IRS's balanced performance measures will be reported in the FY2001 Treasury Annual Program Performance Report, which is to be provided to Congress by the 29th of March 2002.

² This performance plan projects significant increases in performance indicators for almost all programs in fiscal years 2001 and 2002. These increases are projected based on goals we have established for increased productivity and effectiveness as a result of the new more focused organization structure and the benefits from technology investments and other improvement projects. They are very aggressive goals and they depend on many assumptions. Therefore, while we are reasonably confident of the positive trend and are committed to achieving these stretch goals, it is likely that some of these goals will not be achieved during the projected time frames. Also, many of the goals are presented as precise numbers so that they can be traced to underlying source documents and calculations. This apparent precision in presentation does not imply that actual results are precisely predictable.

³ The Field Assistance function in the new organization structure has been given increased emphasis and scope of responsibility. Performance measures presented here are interim measures while more complete and reliable measures are developed.

Filing and Account Services³					
	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
	Actual	Actual	Actual	Performance Plan	Performance Plan
24. Number of Downloads from IRS Digital Daily Website (m)	83	149	317	473	635
25. IRS Digital Daily Website (b)	1.15	1.56	2.6	3.0	3.0
26. Customer Account Correspondence	11,010,272	16,749,967	19,184,321	18,386,660	18,897,435
27. Customer Account Correspondence Quality	N/A	N/A	N/A	85%	86%
28. Teletax and Toll-Free Automated Calls Answered	60,800,000	49,702,823	76,117,000	75,000,000	66,000,000
29. Assistor Call Answered	37,900,000	32,300,000	32,091,000	33,749,888	36,794,388
30. Toll-Free Customer Satisfaction	3.46	3.41	3.45	3.54	3.56
31. Toll-Free Level of Service	N/A	59.0%	56.0%	71.5%	76.3%
32. Toll-Free Tax Law Quality	74%	73%	75%	78%	82%
33. Toll-Free Account Quality	82%	60%	69%	72%	78%
34. Customer Satisfaction Walk-In	6.43	6.48	6.40	6.55	6.55
35. Total Returns Prepared	892,968	1,092,691	1,009,390	984,000	935,000

Measure 13: Individual 1040 Series Returns Filed (paper)

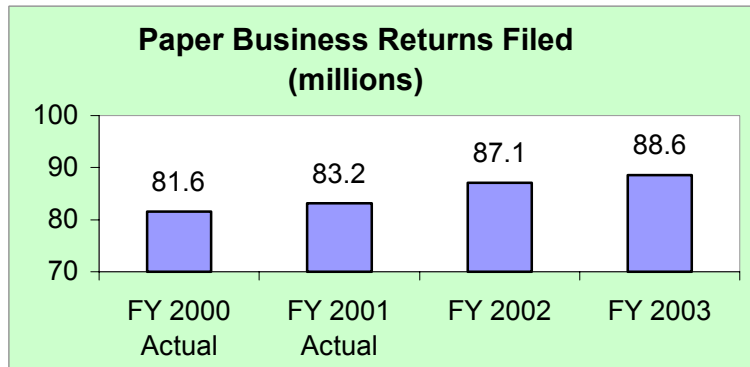
**FY2002**

The number of individual paper returns filed is expected to decline to 86 million, a 5 percent decrease. Resources saved from this decrease in paper processing will be reinvested in customer service and compliance activities. The IRS will complete the consolidation of individual return processing to eight sites, to provide service that is more specialized to taxpayers. Data capture needs for paper returns will be evaluated and notice issuance will be consolidated from ten sites to two national print sites equipped with state of the art technology.

FY2003

The number of individual paper returns filed is expected to decline to 81 million, a 6 percent decrease. The continuing decrease in paper returns is related to the projected increase in electronically filed returns. IRS will continue to have a Filing Season Readiness Committee. Standardized templates will be provided to all centers for submitting their individual site readiness plans. The centers' plans will be reviewed and filing season readiness visits scheduled at selected sites. Filing Season Readiness Plans include projected workloads, staffing, recruitment plans, attrition statistics, and training needs for each site. The centers will also identify any concerns to be addressed before the filing season.

Measure 14: Paper Business Returns Filed (Paper)

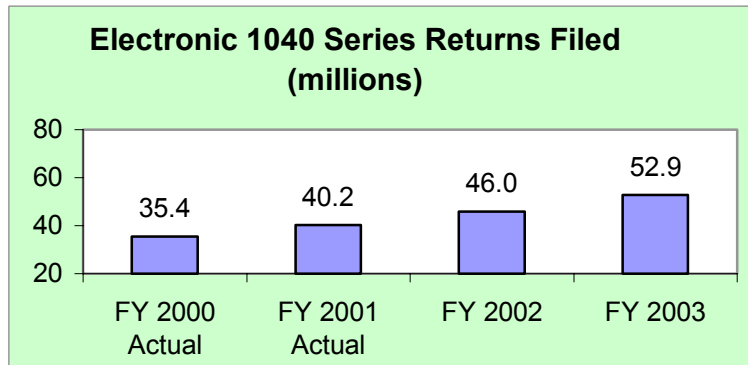
**FY2002**

The number of business returns processed will increase to about 87.1 million, a 5 percent increase. The growth will be driven by a growth in small business sole proprietors. The IRS will continue to work toward completing the consolidation of business return processing in two sites, to provide service that is more specialized to taxpayers. Data capture needs for paper returns will be evaluated and notice issuance will be consolidated from ten sites to two national print sites equipped with state of the art technology.

FY2003

The number of business returns processed will increase to about 88.6 million, a 2 percent increase. The growth will continue to be driven by a growth in small business sole proprietors. The IRS will continue to work toward completing the consolidation of business return processing in two sites, to provide service that is more specialized to taxpayers.

Measure15: Electronic 1040 Series Returns Filed

**FY2002**

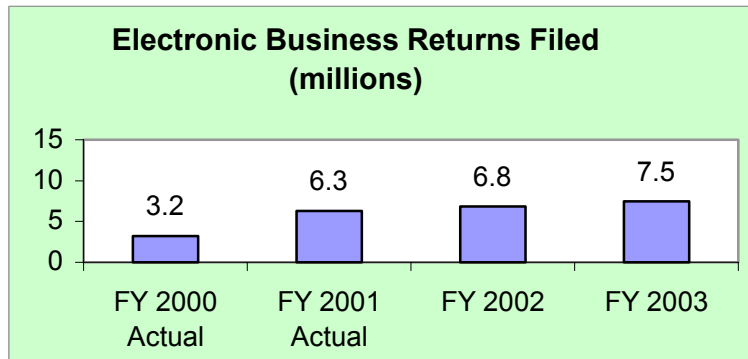
Approximately 46 million individual returns will be filed electronically, a 14 percent increase. IRS will focus e-file marketing on computer prepared returns; develop and promote new distribution channels including employers and financial institutions; work with professional organizations to encourage increased e-file participation; and extend the due date for electronically filed returns for 2003 (proposal submitted).

About 4 million of these individual returns are expected to be filed via the telephone and paperless. The IRS will streamline the Self-Select Personal Identification Number (PIN) Program, and, as a result, 20% of the remaining 42 million returns are expected to be paperless. The IRS will make 29 more forms available electronically, allowing substantially more taxpayers to file their returns electronically.

FY2003

About 52.9 million individual returns will be filed electronically, a 15 percent increase. IRS will continue to offer Self-Select Personal Identification Numbers, and, more than 20% of the electronic returns are expected to be paperless. The IRS will continue to make more forms available electronically, allowing substantially more taxpayers to file their returns electronically.

Measure 16: Electronic Business Returns Filed

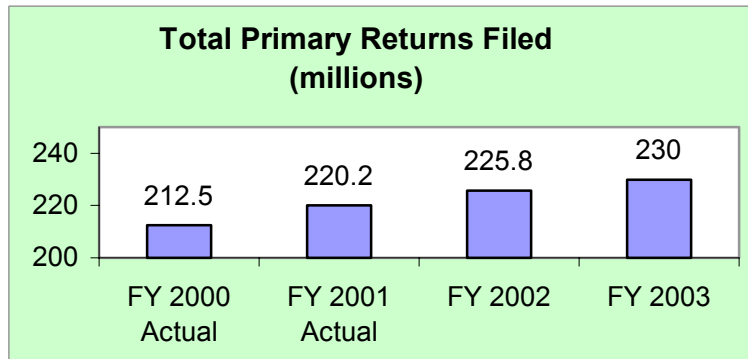
**FY2002**

Electronically filed business returns will increase another 8% to approximately 6.8 million. Under the Administrations e-government umbrella, the IRS will be undertaking an initiative for expanding Electronic Tax Products for Businesses. As part of this initiative, the IRS plans to begin electronic filing of employment tax returns using the Extensible Markup Language (XML) standard in the fall of 2002.

FY2003

Electronically filed business returns will increase to approximately 7.5 million. Under the Administrations e-government initiative, the IRS will begin enabling filing of the corporate returns, Form 1120 and 1120S using the Extensible Markup Language (XML) standard by 2003.

Measure 17: Total Primary Returns Processed



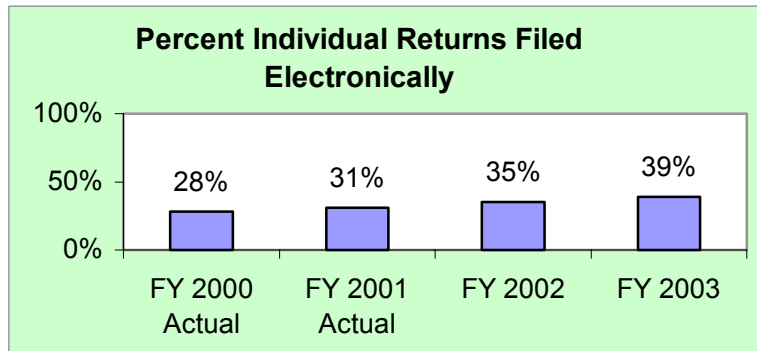
FY 2002

Total primary returns filed will increase to over 225 million, an increase of about 2.5 percent. The mix of processed returns will continue to shift toward a greater number of electronic returns and fewer paper ones.

FY 2003

Total primary returns filed will increase to over 230 million, an increase of about 1.8 percent. The mix of processed returns will continue to shift toward a greater number of electronic returns and fewer paper ones.

Measure 18: Percent Individual Returns Filed Electronically

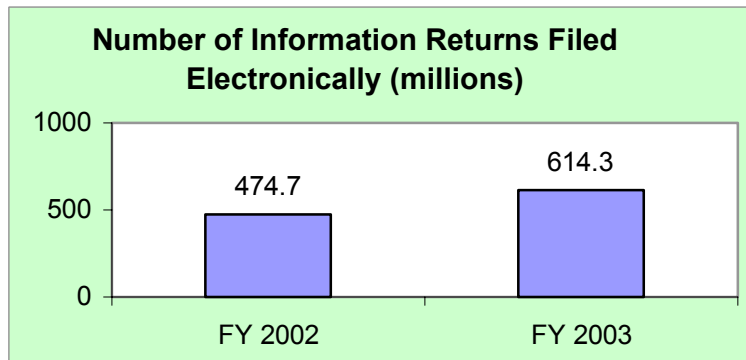
**FY2002**

Over 46 million individual taxpayers are expected to file electronically. The percent of individual returns filed electronically will increase about 4 percentage points to 35 percent. To achieve this increase the IRS will continue to enhance technology to allow electronic filing for the full range of returns, with 29 additional forms and schedules being added for 2002. The IRS will also continue to attract new e-file customers through targeted marketing and education programs.

FY2003

The percentage of individual returns filed electronically will increase to 39 percent. IRS will allow electronic filing of a full range of returns to increase the number of returns filed electronically to meet the Congressional goal of 80% receipt of all tax information returns electronically by 2007. IRS will target taxpayers, tax practitioners and distribution channel partners through marketing programs and education programs.

Measure 19: Number of Information Returns Filed Electronically



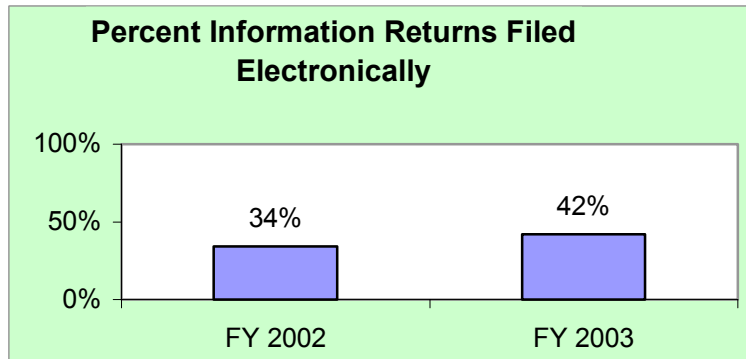
FY2002

This new measure in FY 02 will allow IRS to capture the number of information returns filed electronically which are expected to be 474.7 million.

FY2003

The number of information returns filed electronically is expected to increase by 29 percent to 614.3 million as more business file electronically, replacing magnetic media filings.

Measure 20: Percent of Information Returns Filed Electronically



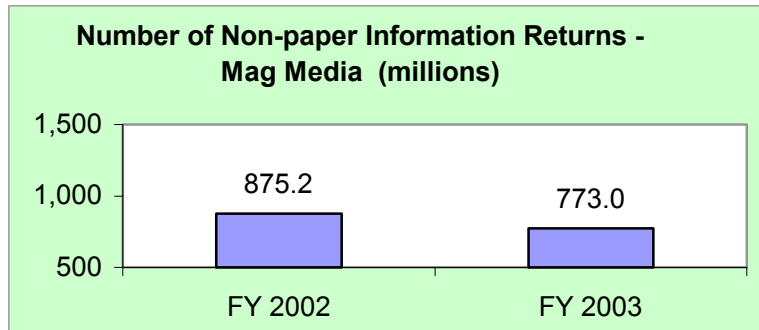
FY2002

Thirty-four percent of information returns are expected to be filed electronically.

FY2003

The percentage of information returns filed electronically is expected to increase by 8 percentage points to 42 percent. IRS will continue to explore initiatives for improving the electronic availability of information returns to taxpayers. Technology will continue to be enhanced for electronic filing of information returns. Strategies and actions will continue to be implemented to achieve the goal of 80% electronically filed tax and information returns by 2007. Workload will continue to be consolidated in the designated Wage and Investment and Small Business processing sites. IRS will continue to ensure electronic products and services are available to provide taxpayers the ability to conduct interactions electronically and allow account management among payers, employers, and tax authorities.

Measure 21: Number of Non-Paper Information Returns (Magnetic Media)



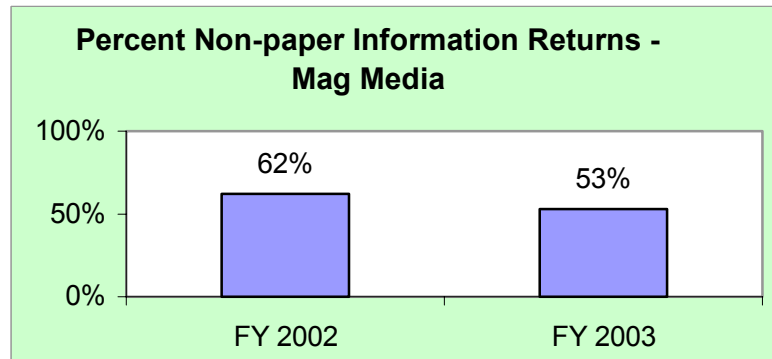
FY2002

This new measure in FY 02 will provide IRS with the capability to capture the number of non-paper information returns filed on magnetic media, which are expected to be 875.2 million.

FY2003

The number of non-paper information returns filed on magnetic media is expected to decrease by 12 percent to 773 million as more information return filings move from magnetic media to electronic filing.

Measure 22: Percent of Non-Paper Information Returns (Magnetic Media)



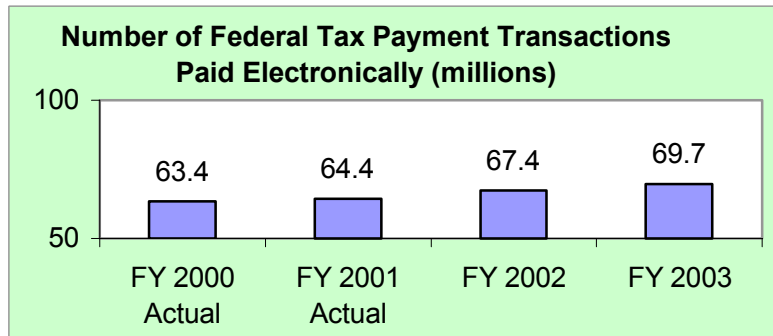
FY2002

This new measure in FY 02 will allow IRS to capture the percentage of non-paper information returns filed on magnetic media, which are expected to be 62 percent of all information returns filed. IRS will continue to explore initiatives for improving the electronic availability of information returns to taxpayers.

FY2003

The percentage of non-paper information returns filed on magnetic media is expected to decrease by 9 percentage points to 53 percent as more information filings move from magnetic media to electronic filing.

Measure 23: Number of Federal Tax Payment Transactions Paid Electronically

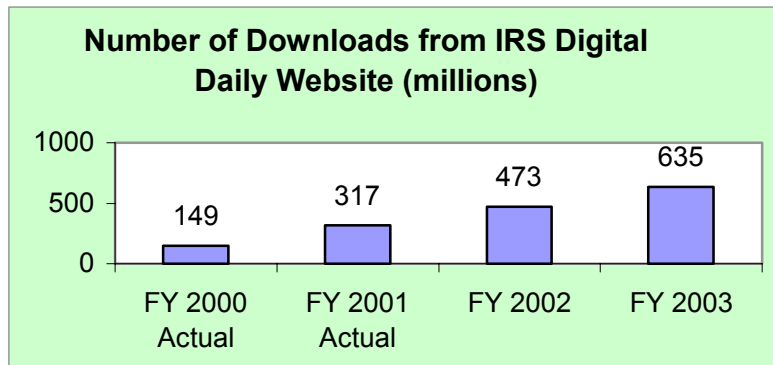
**FY2002**

Electronic Federal Tax Payments System transactions will increase to over 67 million. This represents a 4.7% increase over FY 01 that is attributable to providing taxpayers with the ability to make payments over the Internet, to an increased understanding among taxpayers of the benefits of the system, and increased numbers of taxpayers becoming subject to system mandates. The IRS will continue to tailor marketing initiatives toward both business and individual taxpayers and will pursue additional operational initiatives to increase the number of transactions. Almost 825,000 electronic payment transactions by individuals will occur, representing an increase of more than 27% over the FY2001 target. This increase is expected to occur based on continuation of FY2001 initiatives that affect the number of taxpayers who will enjoy the benefits of making payments via direct debit or credit card.

FY2003

Electronic Federal Tax Payments System transactions will increase to over 69 million. This represents a 3.4% increase over FY 02 that is attributable to increased understanding among taxpayers of the benefits of the system, and increased numbers of taxpayers becoming subject to system mandates. The IRS will continue to tailor marketing initiatives toward both business and individual taxpayers and will pursue additional operational initiatives to increase the number of transactions.

Measure 24: Number of Downloads from IRS Digital Daily Website



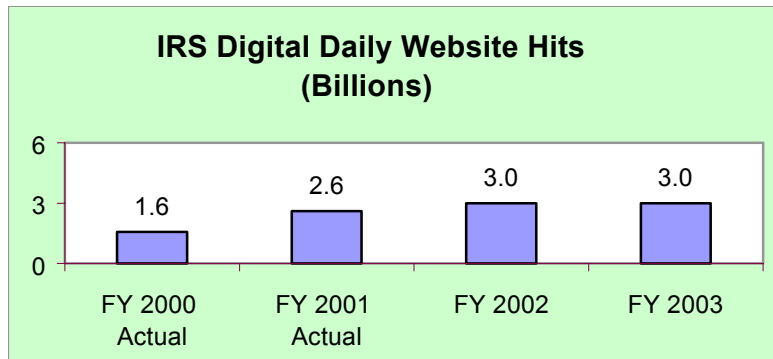
FY 2002

Downloads from the IRS Digital Daily Website are expected to increase by 78 percent to 473 million. IRS will continue to transition its Internet presence from an information only portal to a world class transaction-based gateway. The site will continue to grow in number of unique visitors, pages viewed and pages downloaded. The IRS will develop enhanced capabilities, security and authentication techniques and communication with stakeholders via the web site.

FY2003

Downloads from the IRS Digital Daily Website are expected to increase by 34 percent to 635 million. IRS will continue to transition its Internet presence from an information only portal to a world class transaction-based gateway. The site will continue to grow in number of unique visitors, pages viewed and pages downloaded. The IRS will develop enhanced capabilities, security and authentication techniques and communication with stakeholders via the web site.

Measure 25: IRS Digital Daily Hits



Note: Projections are based on current experience, historical growth, increased marketing, and channel management. However, changes in the IRS web design may cause a decrease in the number of “hits” recorded in both FY 2002 and 2003. This decrease will be due to improved web site navigation and search functions, which may reduce the amount of random exploration by users to find content. The decrease will also be due to better design of the web pages themselves that will reduce the number of graphics and other items that are used to create the web page, all of which are counted as "hits" when a page is accessed. The IRS needs to enhance the web site to help support significant growth in electronic transactions and communications. A key management responsibility will be the development of security and authentication approaches to facilitate communication with stakeholders via the IRS web site.

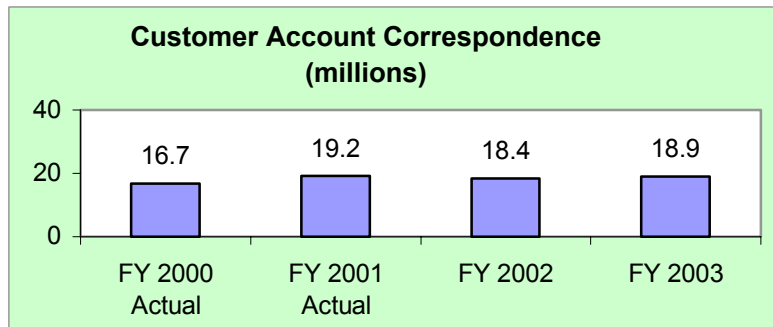
FY 2002

IRS Digital Daily Website hits are expected to increase by 15 percent to 3.0 billion. The IRS will continue to transition its Internet presence from an information only portal to a world class transaction-based gateway. The site will continue to grow in number of unique visitors, pages viewed and pages downloaded. The IRS will develop enhanced capabilities, security and authentication techniques and communication with stakeholders via the web site.

FY2003

IRS Digital Daily Website hits should increase by 20 percent to 3 billion with completion of the web design. The IRS will continue to transition its Internet presence from an information only portal to a world class transaction-based gateway. The site will continue to grow in number of unique visitors, pages viewed and pages downloaded. The IRS will develop enhanced capabilities, security and authentication techniques and communication with stakeholders via the web site.

Measure 26: Customer Account Correspondence

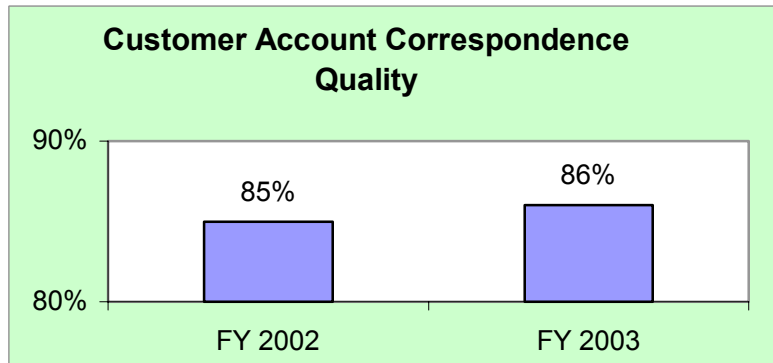
**FY2002**

The IRS will answer 18.4 million written taxpayer inquiries. In order to improve quality and efficiency of service the IRS will continue its effort to segment its inventory and provide specialized training for customer service representatives. The notice mail-out process will be managed more effectively, and clarity of notices will be improved. The IRS is working to make complete taxpayer information available to assistors. This will enhance the ability of assistors to input transactions, update taxpayer accounts, and return data from their desks. Updates will then be immediately available to anyone who accesses the taxpayer's account. This project will also enable the development of additional systems that will allow the IRS to serve taxpayers in a manner similar to that provided by commercial-sector financial service organizations. Correspondence on various tax inquiries will continue to be forwarded for resolution to the appropriate service center that specializes in a designated area of expertise.

FY 2003

The IRS will answer 18.9 million written taxpayer inquiries, a 3 percent increase. IRS will continue to enhance the ability of assistors to input transactions, update taxpayer accounts, and return data from their desks. Updates will then be immediately available to anyone who accesses the taxpayer's account. This project will also enable the development of additional systems that will allow the IRS to serve taxpayers in a manner similar to that provided by commercial-sector financial service organizations. Correspondence on various tax inquiries will continue to be forwarded for resolution to the appropriate service center that specializes in a designated area of expertise.

Measure 27: Customer Account Correspondence Quality

**FY2002**

Correspondence quality rates are expected to reach 85 percent, an increase of 4 percentage points. In order to improve quality and efficiency of service the IRS will continue its effort to segment and specialize its inventory, and will continue to provide specialized training for customer service representatives. The notice mail-out process will be managed more effectively, and clarity of notices will be improved. The IRS is working to make complete taxpayer information available to assistors through the Customer Account Data Engine (CADE) project.

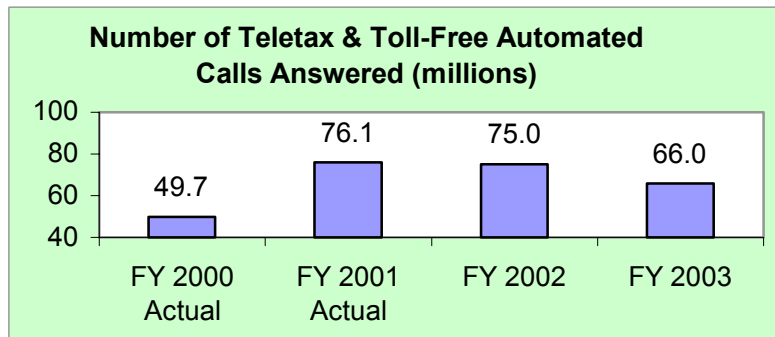
IRS will continue efforts to improve the quality of the service provided to our customers for key program areas, i.e., tax law, account calls and adjustments. Begin testing the recommendations of the Embedded Quality Team that include using a quality measure mapping tool to identify the key performance indicators and underlying measures that need to be considered in determining how to measure quality of service for our key program areas. The scorecard being developed for this measure will incorporate quality components that will link business needs and employee input to the service delivered to our customer.

FY2003

Quality rates should increase to 86%. Reaching and maintaining this level of accuracy assumes implementation of the Customer Account Data Engine (CADE) project. The initial release of CADE for 1040EZ TeleFile is anticipated in January 2002. When implemented, this tool will greatly enhance the ability of assistors to input transactions, and update taxpayer accounts and return data from their desks. Updates will then be immediately available to anyone who accesses the taxpayer's account.

IRS will continue efforts to improve the quality of the service provided to our customers for key program areas, i.e., tax law, account calls and adjustments. IRS will begin testing the recommendations of the Embedded Quality Team that included using a quality measure mapping tool to identify the key performance indicators and underlying measures that need to be considered in determining how to measure quality of service for our key program areas. The scorecard being developed for this measure will incorporate quality components that will link business needs and employee input to the service delivered to our customer.

Measure 28: Number of Teletax and Toll-Free Automated Calls Answered



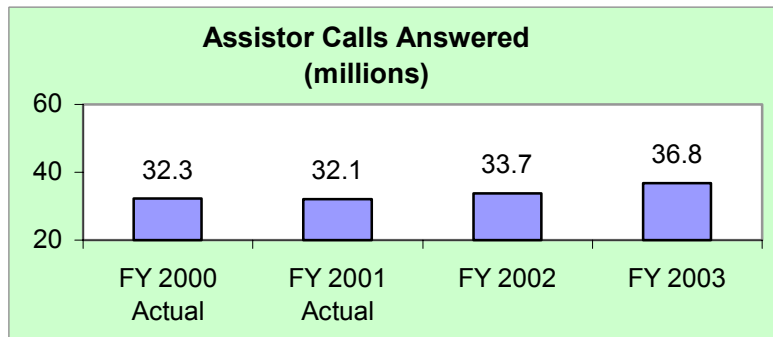
FY2002

IRS will answer 75 million automated calls. The FY 02 number maintains the large increase in calls seen in FY 01 due to the advanced refund. Additional calls on the advanced refund are expected during the 2002 filing season as taxpayers who received a partial credit work through completion of their returns. IRS will continue to focus on enhancing the delivery of the automated call system through improved technology. IRS will implement and monitor the Voice Recognition system to allow more customers the opportunity to be assisted through automated services. Those customers who require additional service, or who have questions that are more technical will be directed to skilled customer service representatives or the appropriate automated systems through the Data Directed Routing system.

FY2003

IRS will answer 66 million automated calls, a 12 percent decrease that reflects the nonrecurring advanced refund calls received in FY 01 and FY 02. IRS will continue to focus on enhancing the delivery of the automated call system through improved technology. IRS will implement and monitor the Voice Recognition system to allow more customers the opportunity to be assisted through automated services. Those customers who require additional service, or who have questions that are more technical will be directed to skilled customer service representatives or the appropriate automated systems through the Data Directed Routing system.

Measure 29: Assistor Calls Answered

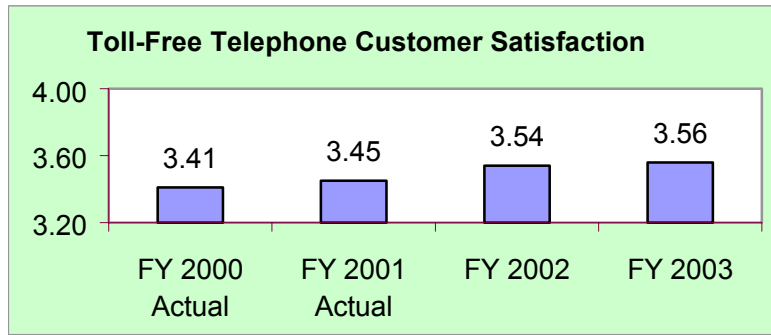
**FY2002**

IRS will answer 33.7 million calls, a 5 percent increase. Residual effects of the FY 2001 tax rebate and complexity of calls answered by customer service representatives will continue to cause an increase which will be minimally offset with the more routine calls routed to automated services. Expansion of alternative language service and routing of questions formerly handled by other personnel will supplement assistor work. Timely hiring and training of additional customer service representatives will be critical in meeting the increased demands. Employee training will be continually improved to correspond with specialized topics required by incoming workload. Use of intelligent call routing will be enhanced, and technology improvements will be implemented to provide service that is more efficient. Finally, the IRS will continue to segment and specialize its customer service workforce to meet taxpayer needs through better service.

FY 2003

IRS will answer 36.8 million calls, a 9 percent increase. The complexity of calls answered by customer service representatives will continue to increase as more routine calls are routed to automated services; as alternative language services are expanded; and as assistors answer questions that used to be referred to other personnel. Timely hiring and training of additional customer service representatives will be critical in meeting the increased demands. Employee training will be continually improved to correspond with specialized topics required by incoming workload. Use of intelligent call routing will be enhanced, and technology improvements will be implemented to provide service that is more efficient. Finally, the IRS will continue to segment and specialize its customer service workforce to meet taxpayer needs through better service.

Measure 30: Toll-Free Telephone Customer Satisfaction

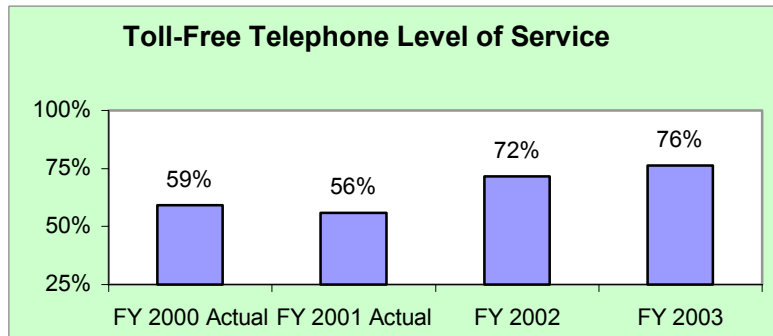
**FY2002**

Customer satisfaction will increase to a rating of 3.54 on a four-point scale. Continuing focus will be on improving the quality of the toll free telephone system by increasing the number of phone assistors, enhancing technology, and maintaining issue specialization. IRS will continue to deliver automated communication solutions that enhance capabilities to deliver better service to customers. Specialized training for assistors will be based on specific topics, issues identified through monitoring, and surveys. IRS will continue to monitor telephone calls to pursue improvements and gain a better understanding of customer needs, and will continue to improve scripting on automated self-service applications.

FY2003

Customer satisfaction should increase to 3.56 on a four-point scale. IRS will continue to deliver automated communication solutions that enhance capabilities to deliver better service to customers. Specialized training for assistors will be based on specific topics, issues as identified through monitoring, and surveys. IRS will continue to monitor telephone calls to pursue improvements and gain a better understanding of customer needs, and will continue to improve scripting on automated self-service applications.

Measure 31: Toll-Free Telephone Level of Service

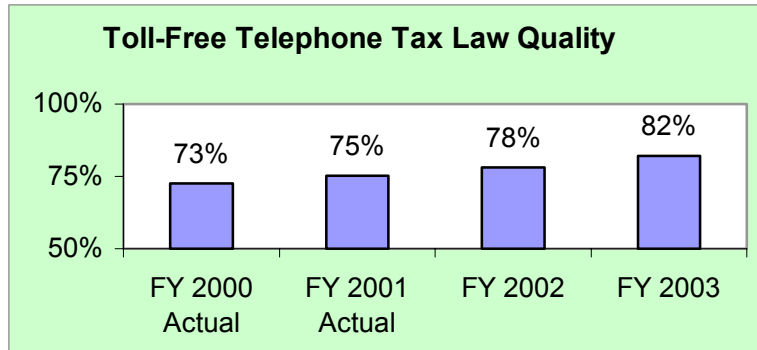
**FY2002**

Telephone level of service will increase to 72 percent, a 16-percentage point increase by implementing process and system enhancements to improve both convenience and quality of telephone communications such as the intelligent call routing system. This system routes calls to sites dedicated to specific types of work as well as to Customer Service Representatives who specialize in designated areas of expertise.

FY 2003

The level of service is projected to reach 76 percent, a 4-percentage point increase. The IRS will add resources to continue to improve service and reduce reliance on compliance personnel to respond to taxpayer inquiries during the peak of the filing season. Technology enhancements will include deploying technology included in the Customer Communications Project plan, routing customers to appropriately skilled assistants or automated systems, and enabling access to refund information over the Internet.

Measure 32: Toll-Free Telephone Tax Law Quality

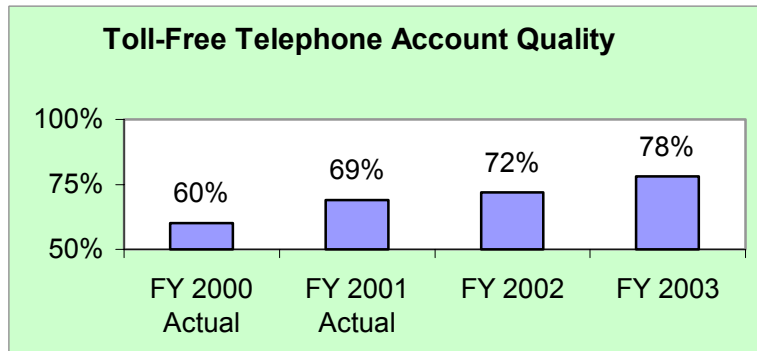
**FY2002**

IRS will increase tax law quality to 78%, a 3-percentage point increase. IRS will continue to improve telephone tax law quality by distributing inquiries to sites where the required resources and appropriate assistor skill sets are available. In addition, actions will be taken to improve workload distribution and training for assistors. IRS will also expand on-line research capabilities for frontline employees by redesigning training modules and providing on-line access to research tools -- including the Internal Revenue Manual. IRS will initiate actions to improve the quality measurement system based on results of a private industry study.

FY2003

Tax law quality is expected to reach 82% as more experienced customer service representatives gain on-the-job training and technical expertise. This represents an increase of 4 percentage points. Full-time permanent employees will staff major call sites on a year-round basis, obviating the need to rely on Compliance employees who have traditionally been pressed into service to meet workload peaks during the tax-filing season.

Measure 33: Toll-Free Telephone Account Quality

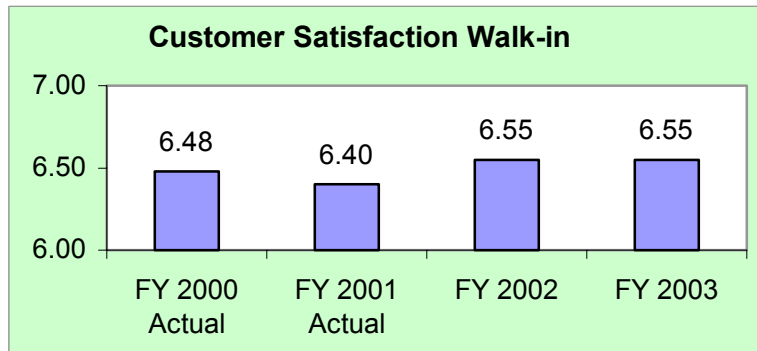
**FY2002**

Telephone account quality will increase to 72 percent as more taxpayers are provided with accurate responses to their account inquiries. This represents an increase of 3 percentage points. To achieve this improvement in account call accuracy, the IRS is working to make complete taxpayer information available to assistors through the Customer Account Data Engine (CADE) project. The initial release of CADE for 1040EZ TeleFile is anticipated in January 2002. When implemented, this tool will greatly enhance the ability of assistors to input transactions, update taxpayer accounts, and return data from their desks. Updates will then be immediately available to anyone who accesses the taxpayer's account. This project will also enable the development of additional systems that will allow IRS to serve taxpayers in a manner similar to that provided by commercial-sector financial service organizations. IRS will continue to monitor calls and analyze feedback data to gain a better understanding of customer and employee needs, pursuing improvements where appropriate.

FY2003

Account accuracy is expected to rise to 78 percent, an increase of 6 percentage points. Much of this increase is attributable to full implementation of CADE. When implemented, this tool will greatly enhance the ability of assistors to input transactions and update taxpayer accounts. Accurate account information will then be immediately available to any authorized employee who accesses the taxpayer's account. This project will also provide an IRS-wide platform for the development of additional systems that will allow the IRS to serve taxpayers in a manner similar to that provided by commercial-sector financial service organizations. The IRS will continue to monitor calls and analyze feedback data to gain a better understanding of both customer and employee needs -- and pursue new opportunities for improved service.

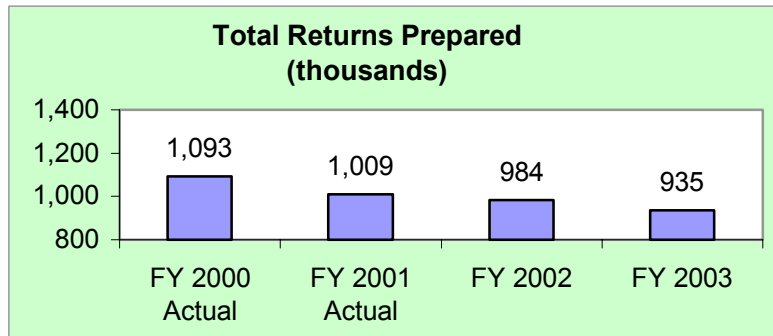
Measure 34: Customer Satisfaction Walk-in

**FY2002**

IRS will improve customer satisfaction to 6.55 on a 7- point scale. This will be achieved by increasing walk-in assistance service through continued recruitment, training, and hiring of Tax Resolution Representatives, and allowing walk-in assistance and compliance work to be combined. IRS will offer more options that are convenient to customers, such as mobile units, kiosks, and additional sites with a broader range of service. Multi-lingual services will continue to be expanded and improved. Additional areas for improvement will be identified as the first results from quarterly comment card surveys become available in the first quarter of FY2002. Other actions to improve customer satisfaction include expanding hours of operation to include appointments at a time convenient to the taxpayer and establishing a Quality Review Unit to assess the quality of service provided to our customers

FY2003

IRS will maintain a customer satisfaction level of 6.55 on a 7-point scale by continuing to respond to feedback from customers using the Customer Satisfaction Survey and by addressing the identified drivers for improving customer satisfaction. IRS will also improve customer satisfaction by incorporating Customer Satisfaction Survey data in the development of the Field Assistance Quality Review program and expanding extended hours of operation at Taxpayer Assistance Centers. IRS will also continue to expand and improve multilingual service to customers and continue to expand convenient options for customer service such as kiosks and mobile units.

Measure 35: Total Returns Prepared**FY2002**

IRS will prepare 984,000 tax returns and continue to emphasize increasing the number of taxpayers whose needs are met through all distribution channels (traditional or alternative). IRS will assess self-help options that have been deployed, and will complete the redesign of its web site to increase the amount of information available to taxpayers. Problem-solving days will be institutionalized, and external partnerships will be expanded to leverage tax return information communication and distribution channels. IRS will seek external expertise to develop new measures to better monitor this new direction. IRS will expand access to electronic filing by eliminating paper return preparation and offering e-file only at 200 sites.

FY2003

IRS will prepare 935,000 tax returns. IRS will continue to expand the electronic filing of tax returns while reducing the number of paper tax returns. Other actions will include continuing the use of an income limitation for tax return preparation; continuing the scheduling appointments for return preparation; and expanding access to electronic filing at Taxpayer Assistance Centers.

COMPLIANCE SERVICES

Performance Goal: *Identify and correct all substantive errors in filed tax returns, reporting of income, and payment of taxes.* – The IRS will emphasize improving compliance through better and more targeted taxpayer education, better reporting, voluntary agreements, improved regulations, earlier intervention, and reducing the length of the appeals process. The IRS will stabilize the level of enforcement activity and take proper action in each case.

FY 2002

Compliance services are important in protecting both the flow of revenue to the Treasury and ensuring taxpayers who voluntarily meet their tax obligations have confidence their neighbors or competitors are also complying. The IRS will begin matching Forms 1041 and 1065 K-1s with individual tax returns to identify underreporting, non-filing and abusive trusts and pass-throughs. The IRS will also implement a risk-based compliance strategy to augment the case selection process and reduce the number of accounts closed as currently not collectible.

The identification of high-risk cases early in the collection process is critical to meeting customer needs and increasing their satisfaction with the time required for issue resolution. Additional direct case time will become available to front line employees through overhead reduction and a decreased demand for assistance during the filing season. Increased direct case time will increase collection tax delinquent account case closures. Centralization of the Offer in Compromise process will have its first tangible effect, freeing resources to work other inventory. Improved return delinquency notices will reduce burden by providing taxpayers with an increased understanding of their filing requirements and simplify their contacts with the IRS.

New hires, efficiency increases, and the availability of more direct case time will increase the number of returns closed from correspondence and field examination programs. Newly hired tax compliance officers will be able to concentrate on examining individual business returns, smaller corporate returns and partnership returns. This will free revenue agents to place a stronger focus on the more difficult and demanding examinations.

FY 2003

The IRS will continue to protect the flow of revenue to the Treasury and ensure that taxpayers that voluntarily meet their tax obligations have confidence that their neighbors or competitors are also complying. IRS will reinvest the FTE savings from workload reallocation and re-engineering efforts to increase coverage of abusive trusts and high-income returns. Return closures will increase as a result of these efforts, including audits of taxpayers with income of more than \$100,000, small businesses and corporations. Partnership, S-corporation and Trust return

closures are projected to increase significantly, affirming our emphasis on increasing audit coverage in these areas. IRS will also focus on updating work processes by incorporating best practices as well as using risk-based examination methodology to identify noncompliance workload.

IRS will develop cross-functional methods of identifying and addressing employment tax schemes. A key component of this strategy will focus on providing up-front education to new businesses. During a partnership examination, the individual returns of all partners must be reviewed to ensure that the flow-through income from the partnership has been properly reported. In order to ensure a comprehensive audit methodology for partnership audits, IRS will develop an approach whereby all examiners auditing a return related to the partnership will work together in a team, communicating and sharing relevant information with each other.

IRS will develop and apply risk-based tools to better identify and predict taxpayer behavior based on historical sampling and customer data. A key benefit will be a more focused approach to compliance treatments. Using available technology to electronically identify potential noncompliance helps us move toward an integrated compliance strategy, and to profile non-compliance in major customer segments.

IRS will partner with state sales tax agencies to match gross sales (state sales tax) and gross receipts (Federal, Schedule C) data. As a follow-up to the FY 2002 pilot information matching system in California, IRS will move toward a nationwide matching plan that partners with other state sales tax agencies. This will be part of a concerted effort by the IRS to partner with Federal, state and private sector small business organizations and preparers to design information systems for “income verification” sharing.

Resource Summary

	FY 2001	FY 2002	FY 2003
Budget Authority (\$000s)	\$3,561,147	\$3,684,170	\$3,881,397
Direct FTE	44,852	45,362	45,959

Critical Measures Summary^{1,2}

Compliance Services					
	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
	Actual	Actual	Actual	Performance Plan	Performance Plan
36. ACS Customer Satisfaction (4 point scale)	3.32	3.46	3.46	3.53	3.54
37. ACS Closures – Taxpayer Delinquent Accounts	2,874,093	1,052,221	1,006,600	1,012,628	1,150,424
38. ACS Closures – Taxpayer Delinquent Investigations	1,828,885	412,150	297,791	317,906	TBD
39. ACS Level Of Service	81%	79%	78%	80%	80%
40. Customer Satisfaction – Field Collection (7 point scale)	3.89	4.6	5.01	5.00	5.00
41. Field Collection – Cases Closed - TDA	951,984	771,455	757,392	804,085	1,088,967
42. Field Collection – Cases Closed - TDI	166,808	144,764	119,451	107,119	135,941
43. Field Collection Quality	86.0%	84.0%	84.0%	85.4%	86.8%
44. Offers in Compromise Processed	49,051	69,514	97,013	185,000	104,600
45. Automated Underreporter Customer Satisfaction (7 point scale)	N/A	N/A	N/A	Baseline	TBD
46. Automated Underreporter Closures	3,367,086	2,888,900	2,511,424	2,919,980	2,963,730
47. Automated Underreporter Paper Quality	N/A	93%	95%	97%	97%
48. Correspondence Examination Customer Satisfaction (7 point scale)	3.87	4.04	4.18	4.45	4.5
49. Total Number of Correspondence Exam Returns Examined	1,302,700	394,754	650,376	575,216	758,604

¹ FY2001 targets and actual performance for IRS's balanced performance measures will be reported in the FY2001 Treasury Annual Program Performance Report, which is to be provided to Congress by the 29th of March 2002.

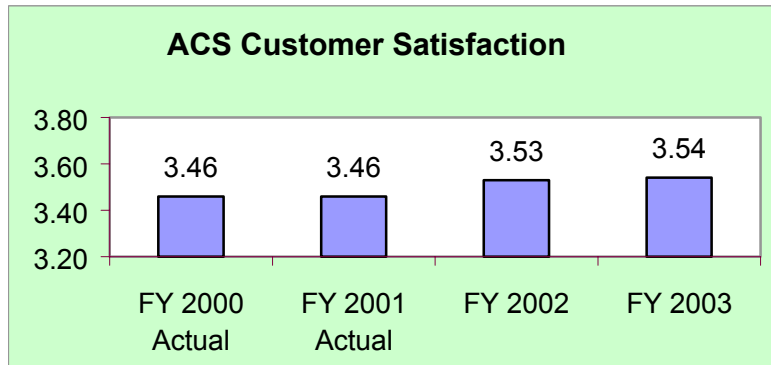
² This performance plan projects significant increases in performance indicators for almost all programs in fiscal years 2001 and 2002. These increases are projected based on goals we have established for increased productivity and effectiveness as a result of the new more focused organization structure and the benefits from technology investments and other improvement projects. They are very aggressive goals and they depend on many assumptions. Therefore, while we are reasonably confident of the positive trend and are committed to achieving these stretch goals, it is likely that some of these goals will not be achieved during the projected time frames. Also, many of the goals are presented as precise numbers so that they can be traced to underlying source documents and calculations. This apparent precision in presentation does not imply that actual results are precisely predictable.

Compliance Services					
	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
	Actual	Actual	Actual	Performance Plan	Performance Plan
50. Correspondence Exam Quality	91%	70%	71%	74%	76%
51. Field Exam Customer Satisfaction (7 point scale)	4.08	4.41	4.65	4.7	5.00
52. Individual Return Examinations > \$100,000	94,638	63,217	50,827	54,468	78,048
53. Individual Returns Examinations < \$100,000	289,698	187,891	145,144	122,313	157,844
54. Total Individual Returns Examined	384,336	251,108	195,971	176,781	235,892
55. Field/Office Exam Case Quality Score	65%	58%	70%	72%	72%
56. Number of Business Returns Examined	137,893	103,112	84,748	81,369	109,556
57. Number of Cases Examined (Large Case)	416	369	417	566	570
58. Number of Returns Closed (Large Case)	3,807	3,096	3,710	3,453	3,477
59. Employee Plans and Exempt Organization Customer Satisfaction (7 point scale)	5.43	5.71	5.7	5.7	5.75
60. EP/EO Examination Cases Closed	22,525	19,080	15,988	11,900	12,300
61. EP/EO Examination Quality	N/A	83%	73%	81%	83%
62. Innocent Spouses Modules Closed	27,936	55,698	61,011	65,000	49,823
63. Appeals Cases Closed	61,507	54,986	54,748	67,560	97,193
64. Subject Criminal Investigations Completed	N/A	3,499	3,340	3,280	3,150
65. Tax Court Cases	45,530	35,962	31,883	34,100	33,600
66. Tax Court Receipts	20,261	13,478	14,766	13,500	13,000
67. TAS Closed Cases	294,993	237,885	248,011	252,289	256,552

Compliance Services					
	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
	Actual	Actual	Actual	Performance Plan	Performance Plan
68. TAS Casework Quality Index	79%	65%	72%	80%	90%
69. Total Enforcement Revenue Collected (\$B) ³	32.9	33.8	33.8	34.8	35.2
70. Agency Wide Employee Satisfaction	55%	59%	51%	54%	58%

³ Records of tax enforcement results are used for forecasting, financial planning and resource management. As required by Section 1204(a) of the Restructuring and Reform Act of 1998(PL 105-206) 112 Stat. 685, 1998 and the Balanced Measures Regulation (26CFR Part 801), this information is not used to evaluate employees or suggest production quotas or goals upon them.

Measure 36: ACS Customer Satisfaction

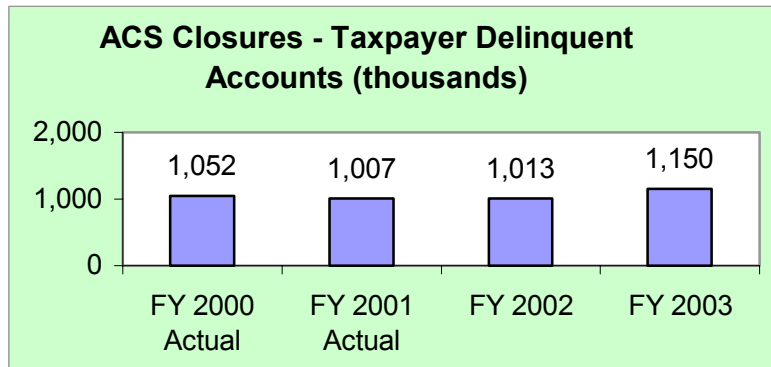
**FY 2002**

IRS will increase the Automated Collection System (ACS) customer satisfaction to a score of 3.5 on a 4-point scale by establishing specialty sites for specific groups of taxpayers, and for specific types of cases. For example, there will be a site specializing in Federal employee and retiree issues, and another site specializing in defaulted installment agreements. Procedural training focused on the documented needs of taxpayers will be provided to customer service representatives to provide them with the expertise they need to effectively and efficiently handle customer calls, and enhance service to each taxpayer.

FY 2003

IRS expects to maintain the improved level of customer satisfaction in the ACS program by employing "risk-based" collection techniques aimed at better identification of collection cases in the early stages of delinquency. Procedural training that focuses on the documented needs of taxpayers will be provided to customer service representatives to provide them with the expertise they need to effectively advise and counsel taxpayers on options for satisfying their payment and filing obligations. IRS will also work with survey vendors to revise and enhance the customer satisfaction questionnaire to more accurately reflect customer concerns, identify operational improvements, and collect data through Interactive Voice Response.

Measure 37: ACS Closures – Taxpayer Delinquent Accounts

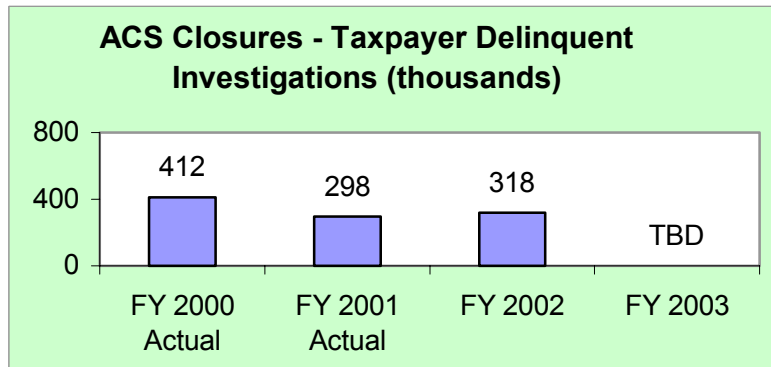
**FY 2002**

The Automated Collection System (ACS) case closures for taxpayer delinquent accounts (TDA's) should realize a modest increase over the prior year level. Procedural changes proposed by various process analysis teams will be implemented. STABLE staffing increases, continued specialization of the workforce, migration of individual master file (IMF) and business master file (BMF) work to designated IMF/BMF call sites, and technology enhancements such as full Integrated Case Processing (ICP) implementation, use of predictive dialers, and enterprise call-routing should result in increased closures in the future. Additionally, expanded installment agreement authority will increase the number of closures using that particular method of disposition, and will enhance the ability to provide service to all taxpayers. However, closing two sites with fully trained employees and redistributing the staff years into the remaining sites will negatively affect TDA closures in FY 2002.

FY 2003

ACS case closures are projected to increase by 13% to 1.15 million. The implementation of the risk-based collection case selection process should reduce the number of accounts closed as currently not collectible and increase the population of more productive cases. This risk-based case selection procedure will introduce behavioral and application scoring to identify potential noncompliance and high-risk cases early in the collection process, segment customers for accelerated handling, evaluate existing case inventory and timeframes and identify private sector best practices for possible replication. Additionally, expanded installment agreement authority will increase the number of closures and will provide additional payment options that better meet taxpayers' needs, enhance long-term compliance and improve delinquent taxpayers' prospects for avoiding future tax delinquency. Continued enhancements to risk-based collection strategies, coupled with enhanced call routing; maturation of the STABLE initiative hires, and additional expansion hires will allow the Service to achieve this increase in TDA closures

Measure 38: ACS Closures – Taxpayer Delinquent Investigations

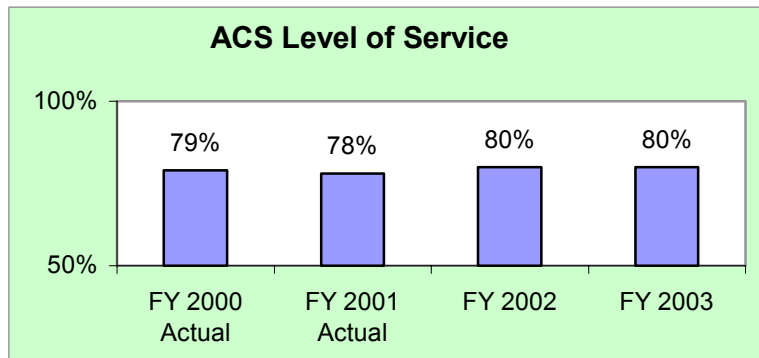
**FY 2002**

Automated Collection System – Taxpayer Delinquent Investigation closures are expected to reach 318,000, a 7 percent increase after a significant decrease in FY 01 due to increased call volumes, delays in hiring and greater focus placed on working the delinquent account inventory. IRS will increase the direct time available to work these cases. The risk-based collection strategy will also affect taxpayer delinquent investigations (TDI) that are worked, ensuring that the most productive are accelerated into inventories. Efforts will be concerned principally with the hiring and training effort arising from call site consolidation and Staffing Tax Administration for Balance and Equity (STABLE) expansion. TDI entities will continue to comprise low priority inventory with the lack of an enforcement alternative. Another round of enhancements to return delinquency notices will provide taxpayers with full details on internal data available that will enable them to determine their filing requirements and file their overdue returns

FY 2003

IRS is analyzing ACS TDI work as part of an effort to institute a risk-based collection strategy. The target will be determined once the ongoing analysis is complete. Closures, however, are expected to increase. Gains will be largely attributable to projected increases in direct time applied to cases in ACS call sites and the continued, positive impact of improved workload selection. The risk-based collection strategy will also affect TDIs that are worked, ensuring that the most productive are accelerated into inventories. Non-filer and Risk-Based Collection (RBC) initiatives have the potential to greatly increase the volume of IMF return delinquencies created. TDI targets may change as recommendations are finalized and systemic changes are implemented.

Measure 39: ACS Level of Service

**FY 2002**

IRS will increase the Automated Collection System (ACS) Level of Service to 80 percent. IRS will meet this target with fewer assessors by increasing specialization, fine-tuning enterprise-wide call routing, and rolling out the initial round of enhanced call routing. Specialized handling; providing greater access for Spanish speaking taxpayers and increased access to self-service applications will shorten the time it takes to correctly get to the service required. Enhanced call routing will refine the type of calls that ACS answers and allow the resources to be maximized to answer a larger number of Collection callers.

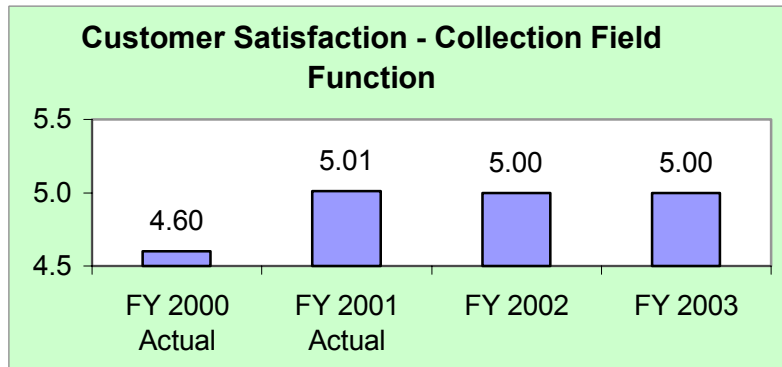
The continued development of business notices that are more clearly written and easily understood is expected to result in fewer telephone contacts. Those telephone contacts still necessary are expected to be of higher quality and of shorter duration since the customer will have a better understanding of the issues involved before calling. Procedural training focused on documented needs of taxpayers will provide customer service representatives with the expertise they need to effectively and efficiently handle customer calls and enhance service to each taxpayer

FY 2003

Despite higher case closures, ACS Level of Service will remain at 80 percent. The continued development of business notices that are more clearly written and easily understood is expected to result in fewer telephone contacts. Those telephone contacts still necessary are expected to be of higher quality and of shorter duration since the customer will have a better understanding of the issues involved before calling. Procedural training focused on documented needs of taxpayers will provide customer service representatives with the expertise they need to effectively and efficiently handle customer calls and enhance service to each taxpayer.

Continued specialization of employees and further refinements in call routing will allow the IRS to address a greater number of taxpayers via telephone. For the first time, in-calls will be segmented based on skill level, reducing handle time and improving both customer and employee satisfaction. Procedures and automation enhancements will enable IRS to maintain an 80% LOS despite an expected increase in call volume.

Measure 40: Customer Satisfaction – Collection Field

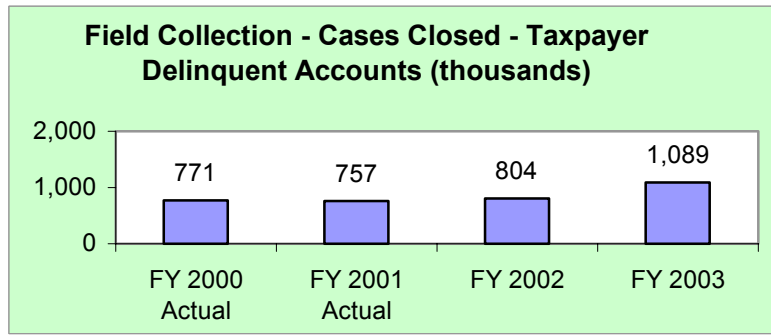
**FY 2002**

IRS expects to achieve a customer satisfaction score of 5.00 (on a 7-point scale). IRS will address taxpayer burden issues and customer concerns identified in quarterly surveys. A new, risk-based collection strategy and workload selection methodology will provide for the timely resolution of delinquent accounts. This should enhance customer satisfaction with the field collection program.

FY 2003

IRS expects to maintain a customer satisfaction score of 5.00 (on a 7-point scale). IRS will continue to address taxpayer burden issues and customer concerns identified in quarterly surveys. The risk-based collection strategy and workload selection methodology will provide for the timely resolution of delinquent accounts. This should enhance customer satisfaction with the field collection program.

Measure 41: Field Collection – Cases Closed – Taxpayer Delinquent Account (TDA)



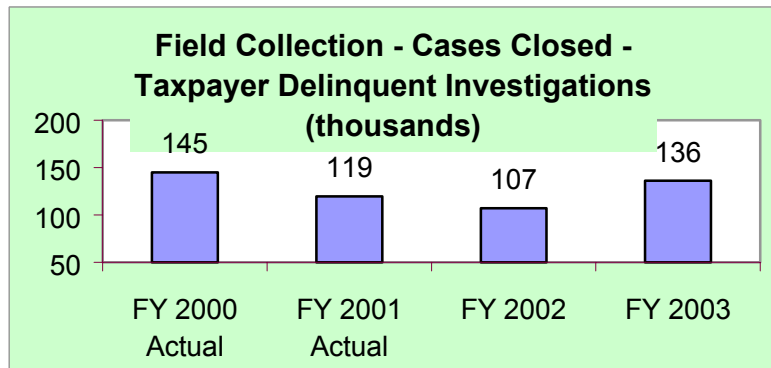
FY 2002

IRS will close 804,000 taxpayer delinquent account cases, a 6 percent increase.

FY 2003

IRS will close 1,089,000 taxpayer delinquent account cases, a 35 percent increase. This substantial improvement can be attributed to increases in direct time for revenue officers; the re-direction of staff from officers-in-compromise (centralized in two service center locations); the elimination of collection employees detailed to support customer service activities during the filing season; and efficiency gains associated with reengineered work practices and procedures.

Measures 42: Field Collection – Cases Closed – Taxpayer Delinquent Investigation (TDI)



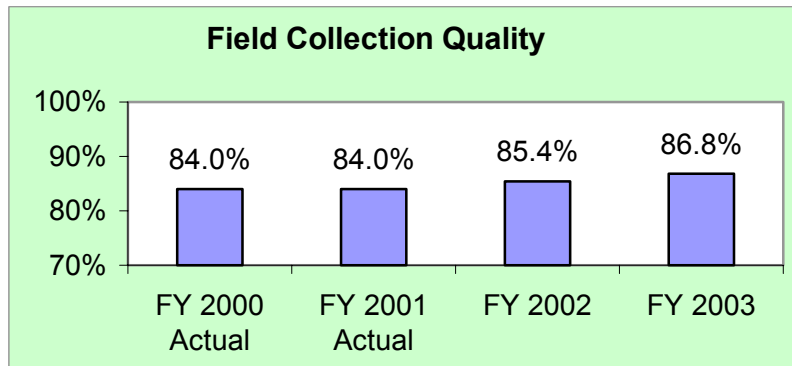
FY 2002

Tax Delinquency Investigation closures will total 107,000, a 10% reduction. This short-term decrease is largely attributable to a reduction in direct time applied to TDI cases, as new hires complete initial classroom and on-the-job training. More experienced revenue officers serve as instructors and OJT coaches for the large number of new recruits.

FY 2003

Tax Delinquency Investigation closures will total 136,000, a 27% increase. Increases in direct time for revenue officers, the reapplication of staffing from OIC and filing season support, and collection reengineering efforts all will contribute to the increased program accomplishments.

Measure 43: Field Collection Quality

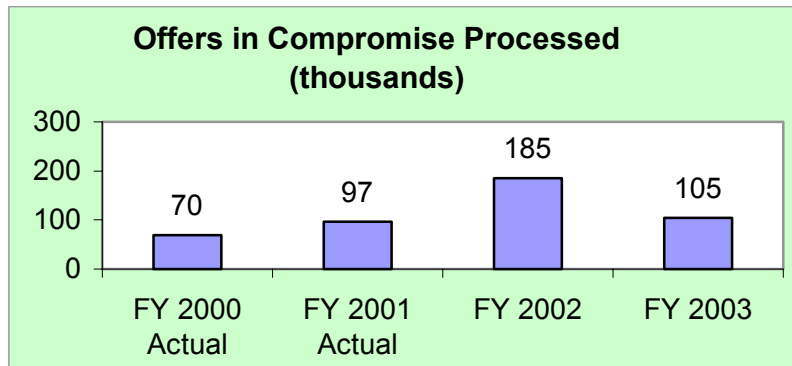
**FY 2002**

Field collection quality scores are expected to increase to 85.4 percent, a 1.4 percentage point increase. IRS will increase the case quality score through the continuation of data analyses and training in targeted areas.

FY 2003

Field collection quality scores should improve to 86.8 percent as new hires gain additional experience and problem areas identified in connection with performance excellence program and data analysis are addressed through targeted training efforts for front-line employees. In addition, IRS will implement a new system for embedding responsibility for assessing and improving technical case quality at the organizational level closest to customers. This will have a direct impact on enhancing service to all taxpayers.

Measure 44: Offers in Compromise Processed



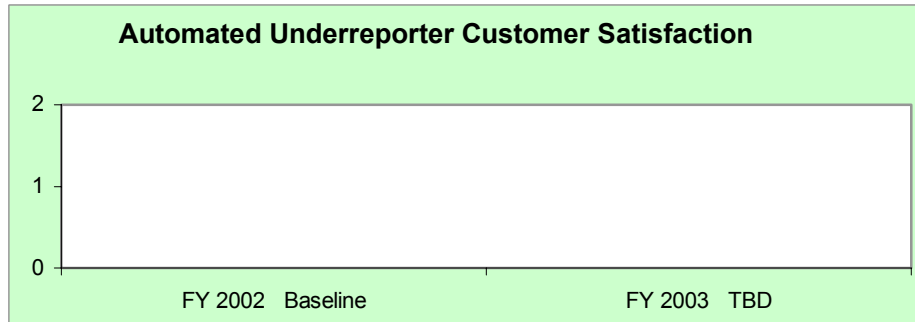
FY 2002

This is the first full year for centralized processing of Offers in Compromise (OIC) cases at the newly established sites (Brookhaven and Memphis). The total number of cases processed will reach 185,000, a 91 percent increase. The addition of some 650 FTE in the centralized sites and introduction of expedited processing ("fast track") procedures will enable IRS to reduce the current backlog of OIC cases.

FY 2003

The volume of cases closed will drop to 105,000 as field collection staff is redirected to delinquent accounts and non-filer cases. This represents a 43 percent reduction. Program emphasis will shift toward reducing the number of cases in overage inventory. Over 70 percent of OIC cases will be closed within six months -- compared with 32 percent in FY 2001.

Measure 45: Automated Underreporter Customer Satisfaction



This measure is being baselined in FY 2002 and FY 2003 target is TBD

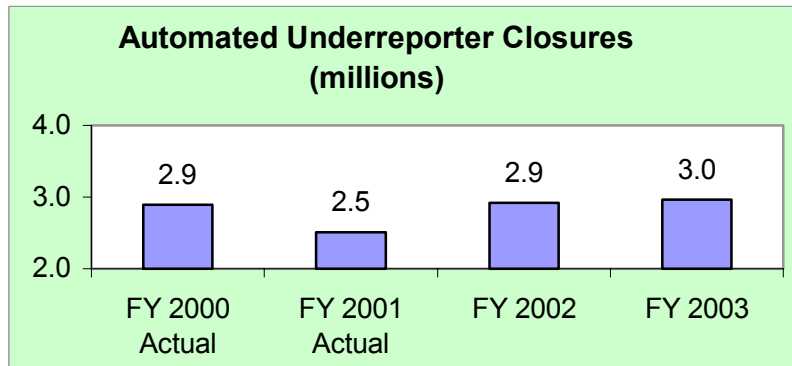
FY 2002

The first survey results will be available by March 2002, and IRS will establish a baseline for improvement opportunities. The feedback will enable us to focus resources on areas that will make the biggest improvements in customer satisfaction. IRS will work with the survey vendor to revise and enhance the questionnaire to more accurately reflect customer concerns and identify operations improvements. IRS will continue to monitor telephone calls to pursue improvements and gain a better understanding of customer needs.

FY 2003

Survey results will enable us to focus resources on areas that will make the biggest improvements in customer satisfaction. IRS will continue to work with the survey vendor to revise and enhance the questionnaire to more accurately reflect customer concerns and identify operations improvements. IRS will continue to monitor telephone calls to pursue improvements and gain a better understanding of customer needs

Measure 46: Automated Underreporter (AUR) Closures

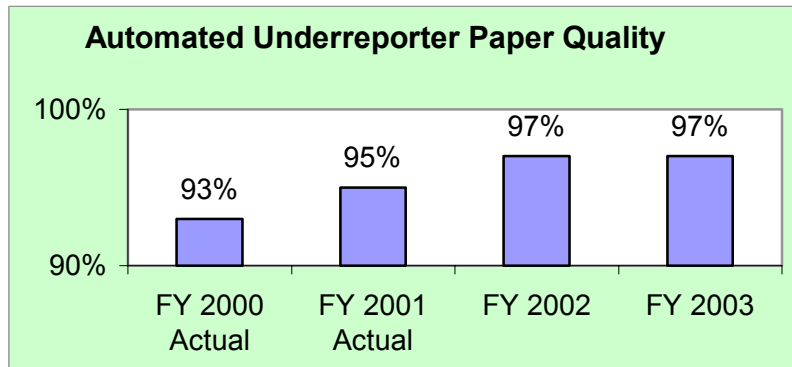
**FY 2002**

IRS will close 2.9 million income reporting discrepancy cases, a 16 percent increase. To accomplish this the IRS will apply additional staff to work cases, complete workload migration to specialized sites, and test plans to rotate document matching selection criteria from year-to-year to expand coverage and improve voluntary information return reporting in individual income tax returns. Risk-based workload selection strategies will be developed to select cases based on knowledge of specific issues affecting these taxpayers and potential noncompliance risk. Mechanisms will be developed to use post-filing knowledge to develop improved guidance and education programs to prevent future problems.

FY 2003

IRS will close 3 million income reporting discrepancy cases. Risk-based workload selection strategies will continue to be developed to select cases based on knowledge of specific issues affecting these taxpayers and potential noncompliance risk. Mechanisms will be developed to use post-filing knowledge to develop improved guidance and education programs to prevent future problems. An area of continued focus and emphasis will be matching K-1 returns associated with partnerships, trusts and S-Corporations with information reported on individual returns.

Measure 47: Automated Underreporter (AUR) Paper Quality

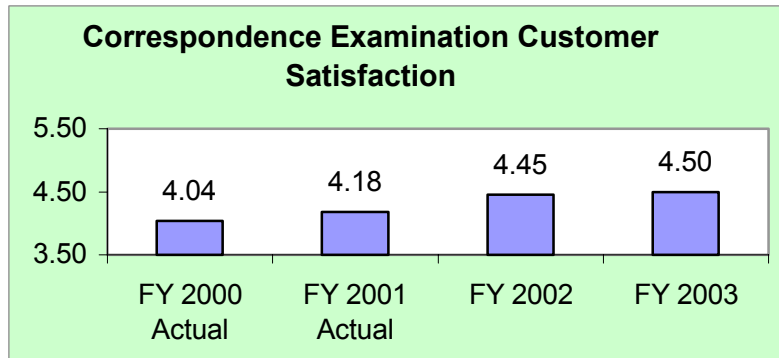
**FY 2002**

IRS will increase case quality level to 97 percent while hiring and training additional staff, by engaging frontline employees and managers in determining and developing procedural guidelines, business requirements, and by establishing a managerial/leadership curriculum consisting of the 12 components of Enhanced Supervisory Practices Initiative. There will be ongoing efforts to improve quality by engaging frontline employees and managers in developing and presenting training curriculum, CPE, and the IRM material. The impact of targeted planned training on challenging business issues should take hold and guide IRS in determining additional areas needing emphasis.

FY 2003

IRS will maintain case quality level at 97 percent. IRS will continue engaging frontline employees and managers in developing procedural guidelines and business requirements. There will continue to be ongoing efforts to improve quality by engaging frontline employees and managers in developing and presenting training curriculum, CPE, and the IRM material. The impact of targeted planned training on challenging business issues should take hold and guide IRS in determining additional areas needing emphasis

Measure 48: Correspondence Exam Customer Satisfaction

**FY 2002**

IRS will increase the customer satisfaction score for correspondence examination to 4.45 (on a 7-point scale).

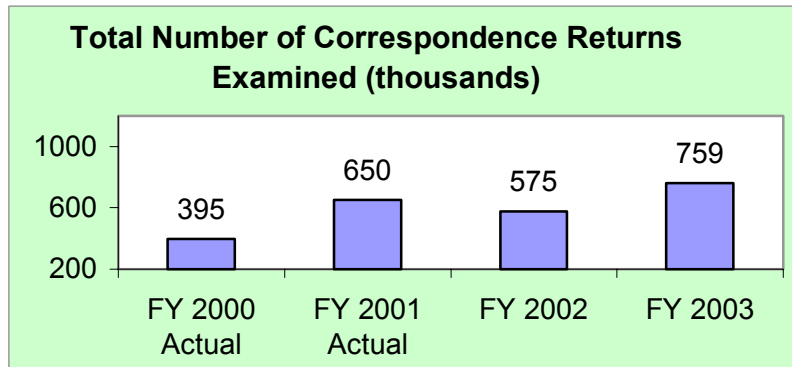
IRS expects to be able to achieve this by focusing on customers' needs as revealed from the customer satisfaction survey results, by working to improve customer feedback processes, and by developing targeted training in the most challenging areas. Data will be collected through Interactive Voice Response. Actions to improve customer satisfaction will include delivery of automated research tools to employees, tailoring work plans to particular groups of taxpayers based on knowledge of specific issues affecting these taxpayers, and identifying mechanisms to use post-filing knowledge to develop improved guidance and education programs to prevent future problems.

FY 2003

IRS will increase the customer satisfaction score for correspondence examination to 4.5 (on a 7-point scale).

IRS expects to be able to achieve this by continuing to focus on customers' needs as revealed from the customer satisfaction survey results, by working to improve customer feedback processes, and by developing targeted training in the most challenging areas. Data will be collected through Interactive Voice Response. Actions to improve customer satisfaction will include delivery of automated research tools to employees, tailoring work plans to particular groups of taxpayers based on knowledge of specific issues affecting these taxpayers. IRS will also identify mechanisms to use post-filing knowledge to develop improved guidance and education programs to prevent future problems.

Measure 49: Total Number of Correspondence Exam Returns Examined



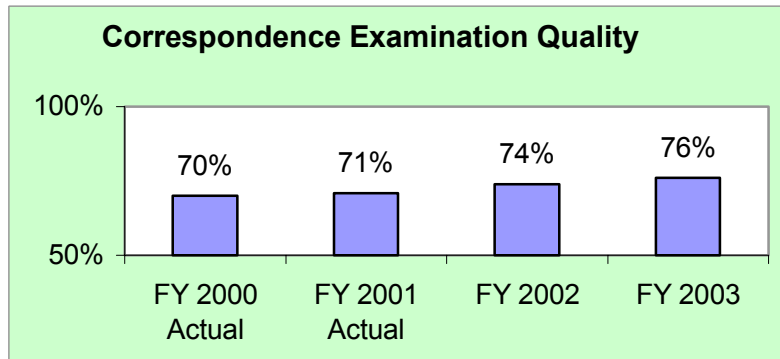
FY 2002

The number of correspondence returns examined will decrease by almost 12 percent to 575,000. More than 80 percent of these returns will involve Earned Income Tax Credit (EITC) issues. The decrease reflects efforts to improve the targeting of unproductive EITC exams by improving workload identification through full implementation of the Dependent Database and new procedures that allow taxpayers to self-correct errors in lieu of traditional examinations. It also reflects the decrease in the number of cases initiated in prior years.

FY 2003

The number of correspondence returns examined will increase by 32 percent to 759,000. A small portion of this increase (4 percent) will be attributable to additional staffing devoted to correspondence examinations. The primary drivers, however, involve systemic improvements in case creation, inventory delivery and direct time expected to result from re-engineering examination work processes.

Measure 50: Correspondence Examination Quality

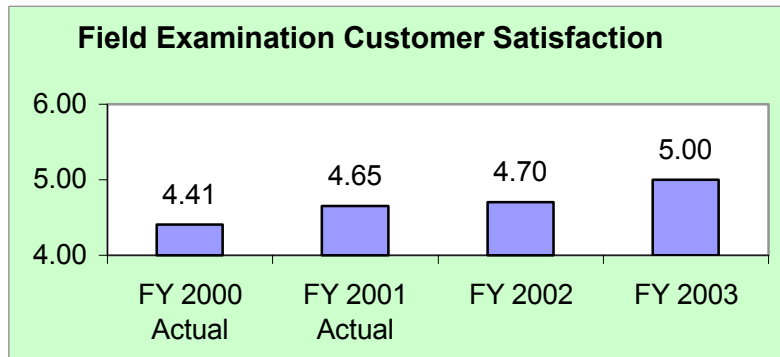
**FY 2002**

IRS's correspondence examination quality score will increase to 74%, a 3-percentage point increase over the prior year. IRS will place emphasis on targeted, planned learning programs tailored to the types of issues encountered during a correspondence examination. IRS will also engage front line employees and managers in determining business and system requirements, redesign the content and delivery of the Internal Revenue Manual in a web-based environment, and provide enhanced research tools.

FY 2003

Correspondence examination quality score is expected to reach 76%. Additional emphasis will be placed on targeted, planned learning programs tailored to the types of issues encountered during a correspondence exam. IRS will also engage front line employees and managers in determining business and system requirements, redesign the content and delivery of the Internal Revenue Manual in a web-based environment, and provide enhanced research tools.

Measure 51: Field Exam Customer Satisfaction



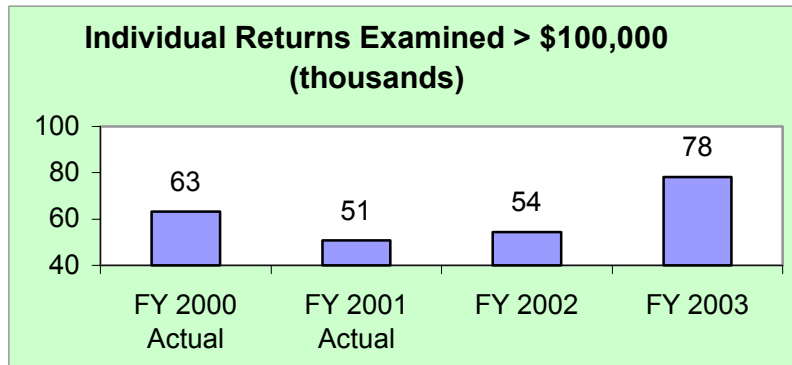
FY 2002

Customer satisfaction in the field examination program is expected to increase to 4.70 on a 7-point scale. There will be a continued emphasis on the Examination Quality Measurement System (EQMS) data analysis to uncover areas where IRS can foster customer satisfaction improvement. IRS will also look to expand the customer satisfaction survey results to include corporate taxpayers. IRS' national headquarters office will give pro-active assistance to field offices in analyzing survey results, and identifying improvement opportunities for their customer base.

FY 2003

Customer satisfaction in the field examination program is expected to reach 5.00 on a 7-point scale. There will be continued emphasis on analyzing data from EQMS to identify improvement opportunities.

Measure 52: Individual Return Examinations Greater Than \$100,000

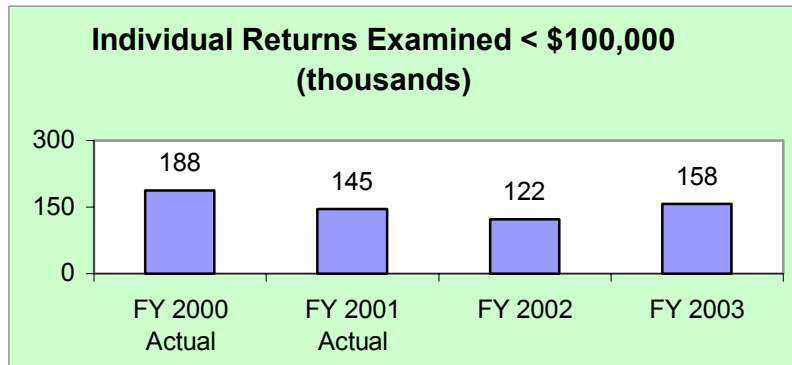
**FY 2002**

IRS will increase the number examinations of individual returns with gross income in excess of \$100,000. Examinations of these high-income returns will total 54,000, an increase of 8 percent. Those selected for the new Tax Compliance Officer (TCO) position, hired in the previous year, should be fully trained and ready to concentrate on returns in this category. This goal will be achieved by hiring additional revenue agents, reducing by another 50% assistance (details) to other operations during the filing season, and scheduled increase in efficiency. Emphasis on returns indicating abusive trust or pass-through income will also continue.

FY 2003

Examinations of high-income individuals will reach 78,000, an increase of 43 percent. Additional resources allocated to this audit class will include newly hired revenue agents and tax compliance officers, funded in part from savings generated by the elimination of details to customer assistance programs during the filing season. Continued emphasis will be given to returns involving abusive trusts and pass-through income associated with partnerships and sub-chapter S corporations.

Measure 53: Individual Return Examinations Less Than \$100,000



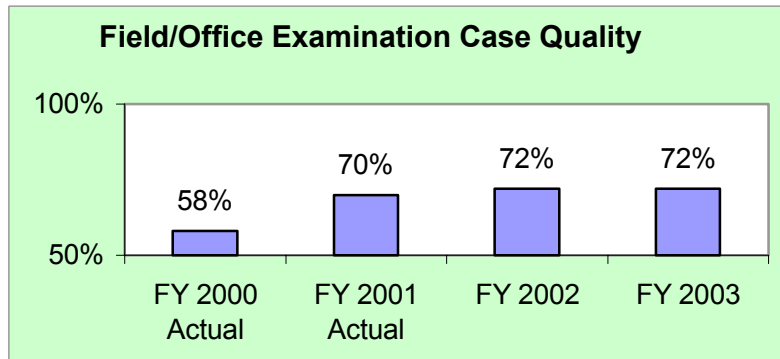
FY 2002

IRS will decrease the number of returns with gross income less than \$100,000 income that are examined by IRS field and office examination programs. Examinations in this category will total 122,000, a reduction of 16 percent. Much of the reduction is attributable to the lower level of examinations started in FY 2001 due to the major investment in training for new hires.

FY 2003

IRS will increase the number of returns with gross income less than \$100,000 income that are examined by IRS field and office examination programs. Examinations in this category will total 158,000, an increase of 30 percent. This increase will be achieved by reducing the time spent in assisting other operations during the filing season by another 50%, a scheduled increase in efficiency, and new revenue agent hires. Emphasis on returns indicating abusive trust or pass-through income will also continue.

Measure 55: Field/Office Exam Case Quality Score



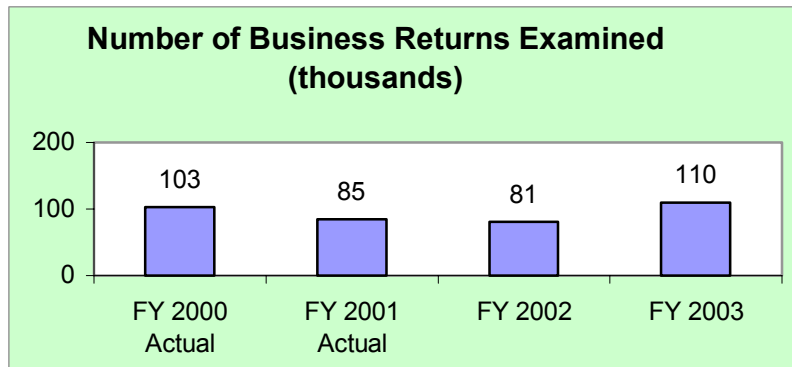
FY 2002

IRS will increase the field and office examination case quality score to 72 percent, an increase of 2 percentage points. IRS will continue to identify areas that can be improved through the analysis of EQMS data and TIGTA audits. Targeted, planned learning programs will also continue. Additionally, IRS will look to develop a system for embedding responsibility for assessing and improving technical case quality at the organizational level closest to customers.

FY 2003

IRS will maintain the field and office examination case quality score of 72 percent. IRS will continue to identify areas that can be improved through the analysis of EQMS data and TIGTA audits. Targeted, planned learning programs will also continue. Additionally, IRS will look to develop a system for embedding responsibility for assessing and improving technical case quality at the organizational level closest to customers.

Measure 56: Number of Business Returns Examined



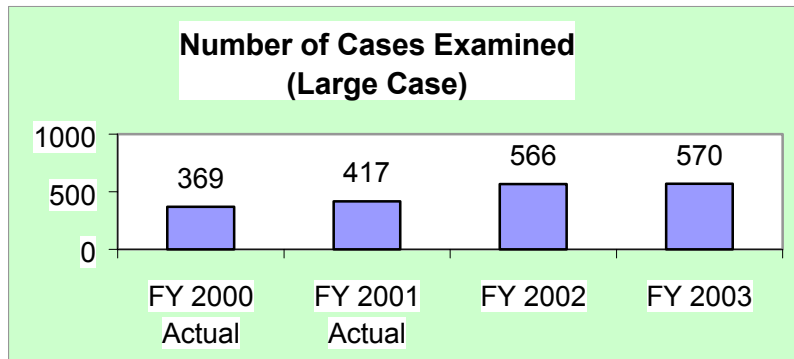
FY 2002

IRS will examine 81,000 business returns, a decrease of 5 percent. The total number includes Schedule C (self-employed), Schedule F (farm), corporations with less than \$10 million in assets, and General Industry returns, which includes employment tax. The decrease in the General Industry examinations is the result of the migration to more complex returns, which historically require more revenue agent time.

FY 2003

IRS will examine 110,000 business returns, an increase of 36 percent. Increases will be evenly distributed between Schedule C, Schedule F and corporations with under \$10 million in assets. General Industry examinations of large and mid-size businesses will increase by 7% as increased emphasis is placed on the cooperative resolution of issues earlier in the process. IRS will accomplish the expanded examination program by reapplying savings from reengineering of work processes and re-directing compliance resources from other programs, including filing season support for walk-in and telephone customer service programs.

Measure 57: Number of Cases Examined (Large Case)

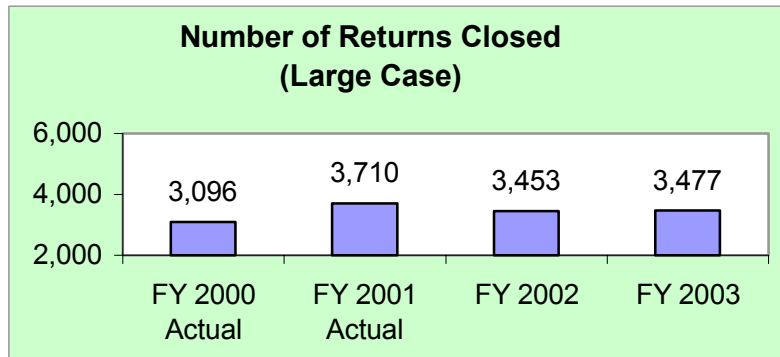
**FY 2002**

IRS expects to close 566 Coordinated Industry cases, an increase of 36 percent. This target will be achieved through the use of issue management tools, such as aggressive structured risk analyses; alternative treatments for resolving issues (especially the use of pre-filing tools); better management of the Information Document Request process; and involving International Examiners and Specialists early in the examination process. IRS will also conduct aggressive reviews of cases to avoid currency problems, just-in-time training for compliance agents, and the use of new regulations to address corporate abusive tax shelters. The use of these strategies will contribute to an overall saving of staff years applied to Coordinated Industry cases. These savings will be redirected to other workload with high compliance risks.

FY 2003

IRS expects to close 570 Coordinated Industry cases, a slight increase. This level will be maintained by the continued implementation of strategies to expeditiously resolve issues and manage the examination process. IRS will also continue the use of issue management tools, such as aggressive structured risk analyses; alternative treatments for resolving issues (especially the use of pre-filing tools); better management of the Information Document Request process; and involving International Examiners and Specialists early in the examination process.

Measure 58: Number of Returns Closed (Large Case)

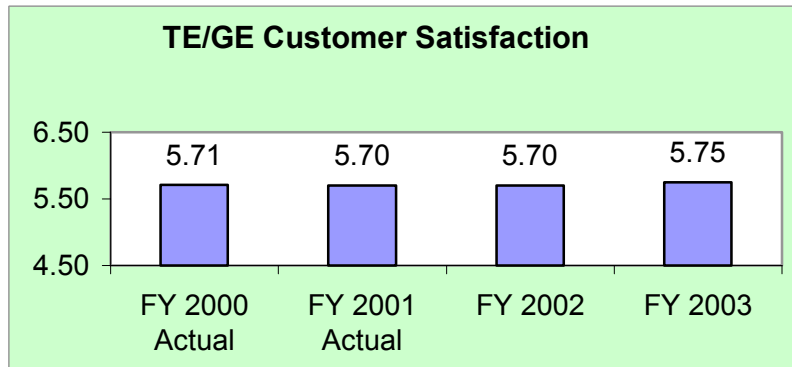
**FY 2002**

Coordinated Industry tax returns are the largest, most complex returns handled by the IRS. IRS will close 3,453 Coordinated Industry returns, a 7 percent decrease. The number of returns closed for Coordinated Industry is directly related to the number of Coordinated Industry cases closed. This target reflects consideration of employee and customer service goals, and redirection of resources to pre-filing activities in an effort to cooperatively resolve issues in the return filing versus post-filing process. IRS will continue the development of a risk identification model and resource alignment methodology by expanding it to consider specialized support resources, such as financial product specialists and engineers. Included in these return closings are related income, excise, employment and various other tax returns.

FY 2003

IRS will close 3,477 Coordinated Industry returns, a slight increase. The number of returns closed for Coordinated Industry is directly related to the number of coordinated industry cases closed. This goal will be achieved using issue management tools, such as aggressive structured risk analyses, alternative treatments for resolving issues (especially the use of pre-filing tools); better management of the Information Document Request process; and involving International Examiners and Specialists early in the examination process. IRS will also use aggressive reviews of cases to avoid currency problems, just-in-time training for compliance agents, and the use of new regulations to address corporate abusive tax shelters. The slight increase is a result of the continued implementation of strategies to result in the expeditious resolution of issues and management of the examination process.

Measure 59: Tax Exempt/Government Entity (TE/GE) Customer Satisfaction



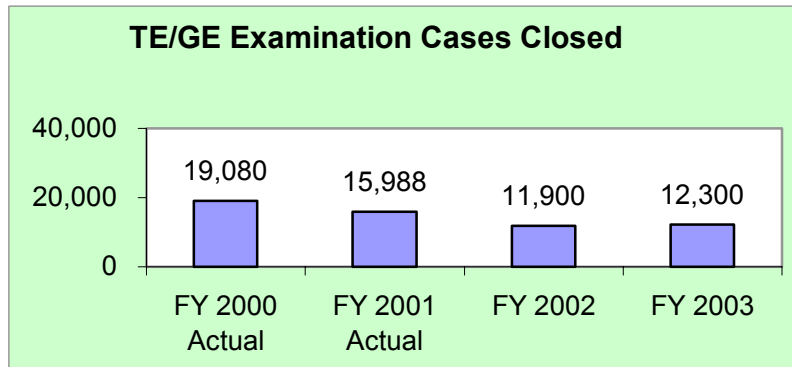
FY 2002

Already high customer satisfaction with IRS Employee Plans (EP) and Exempt Organization (EO) examination programs will be maintained, despite the need to shift substantial examination resources to determination processing in EP. Just 8 percent of EP and 10 percent of EO customers expressed dissatisfaction with their examination experience in CY2000, making further gains in this indicator extremely difficult. Nonetheless, EP and EO will continue ongoing initiatives to address customer improvement priorities, including the length of the examination process and the amount of time customers spend on their audits.

FY 2003

Although further improvements in customer satisfaction will be difficult to achieve, small gains in customer satisfaction are projected through continued process improvements to address customer dissatisfaction with the length of the examination process and the amount of time customers spend on their audits.

Measure 60: TE/GE Examination Cases Closed

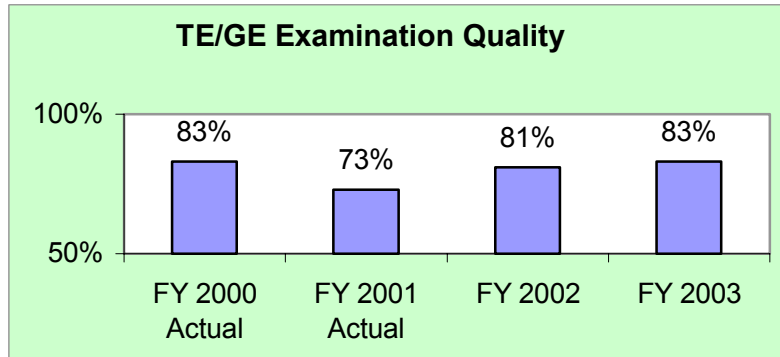
**FY2002**

IRS will close 11,900 Employee Plans and Exempt Organization examinations. The reduced level of examination cases closed reflects the diversion of resources to the processing of EP determinations that are increasing significantly due to tax law changes. The resources remaining to conduct examinations will focus on plans that cover the greatest number of participants and that represent the greatest risk. EO will take steps to stabilize and focus the resources committed to examinations by capping the resources diverted to determinations (which have increased steadily over the last decade) and placing determination work in dedicated field groups to reduce disruption to the examination process.

FY2003

Combined EP and EO examination closures will begin to increase. During the course of the year, EP resources will begin to shift back to working examinations as the determination inventory decreases. However, EP exam closures will still diminish slightly due to the lean inventory of cases in process at the start of the fiscal year. This decline will be offset by increased closures in EO attributable to planned productivity gains and a transfer of resources from determinations work made possible by growing experience and productivity in that area.

Measure 61: TE/GE Examination Quality

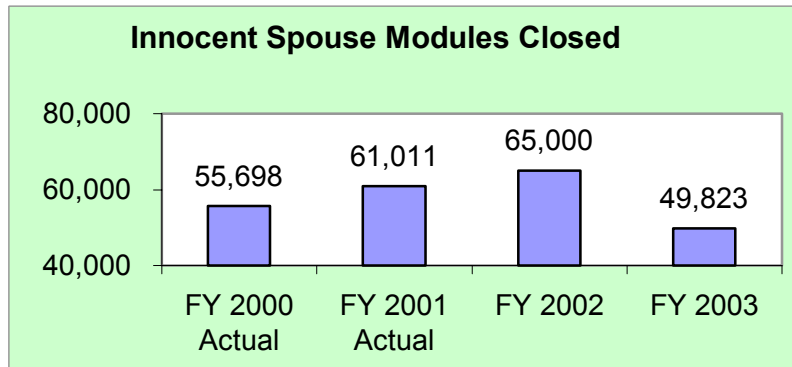
**FY2002**

Both Employee Plans (EP) and Exempt Organizations (EO) are committed to recovering from the decline in quality measured in FY2001. An analysis of quality results has identified the standards that were missed most frequently. These standards will be targeted for improvement through training and managerial attention to these issues.

FY 2003

EP and EO Examination programs will reestablish the level of quality achieved in FY2000. Quality results will continue to be analyzed to identify the most frequently missed standards, which will be targeted for improvement through training and dedicated managerial attention.

Measure 62: Innocent Spouse Modules Closed

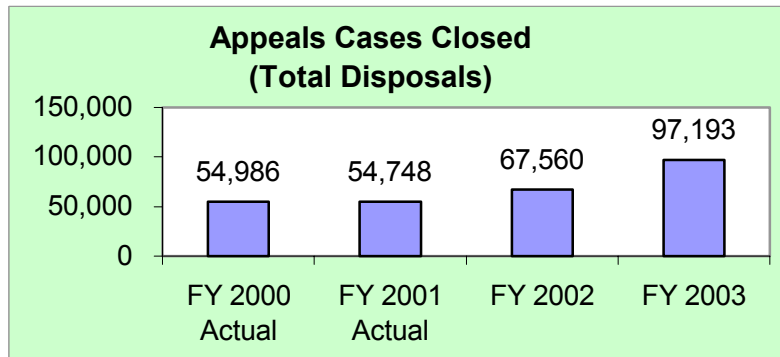
**FY 2002**

The number of innocent spouse modules that will be closed will increase by 6.5 percent to 65,000. IRS will continue actions to improve quality and timeliness of innocent spouse claim processing. IRS will continue deployment of the Integrated Case Processing (ICP) system to deliver examiners the ability to access and update taxpayer data through a single terminal and access path. IRS will implement the revised innocent spouse claim form and publication (Form 8857) to improve completeness and accuracy of claims filed, and expand innocent spouse case processing by Taxpayer Resolution Representatives (TRRs). This will further decrease the reliance on compliance personnel for innocent spouse case processing.

FY 2003

The number of innocent spouse determinations will decline to 49,823 due to the successful completion of all backlogged inventories. This represents a decrease of 23 percent. Innocent Spouse work completed will consist of only current year receipts. IRS will continue to deploy the revised innocent spouse claim form and publication (Form 8857) to improve completeness and accuracy of claims filed, and expand innocent spouse case processing by Taxpayer Resolution Representatives (TRRs).

Measure 63: Appeals Cases Closed (Total Disposals)

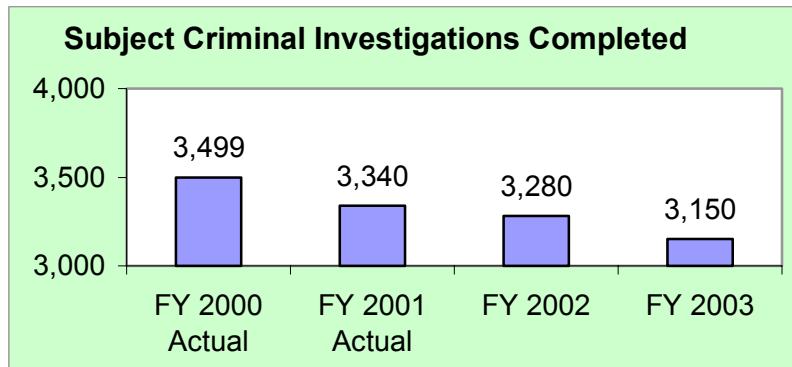
**FY 2002**

The number of Appeals cases closed is targeted for 67,560, an increase of 23 percent. One of IRS's operational priorities is to reduce the backlog of Collection related cases. The Collection Currency Initiative will focus on Collection Due Process cases. IRS will accomplish this by devoting additional resources to work these cases and improve case development practices. The vast majority of Appeals personnel completed the necessary training. E-Case, an enhancement to the Appeals Centralized Database System, will enable IRS to establish and share case information electronically, thereby reducing cycle time and saving money. The Mutually Accelerated Appeals Process will reduce the time it takes to resolve large cases in Appeals.

FY 2003

The number of Appeals cases closed is targeted for 97,193, an increase of 44 percent. A Collection Due Process tracking system will provide critical information and procedural improvements will reduce cycle time. The automation of the Workload Forecasting Process will allow Appeals to deploy resources appropriately. E-Case will be operational and Appeals will receive cases faster from the Operating Divisions. There will be further reductions in cycle time as the inventory of Mutually Accelerated Appeals Process cases is resolved. Appeals will refine and implement Alternative Dispute Resolution initiatives such as Fast Track Mediation and Settlement.

Measure 64: Subject Criminal Investigations Completed

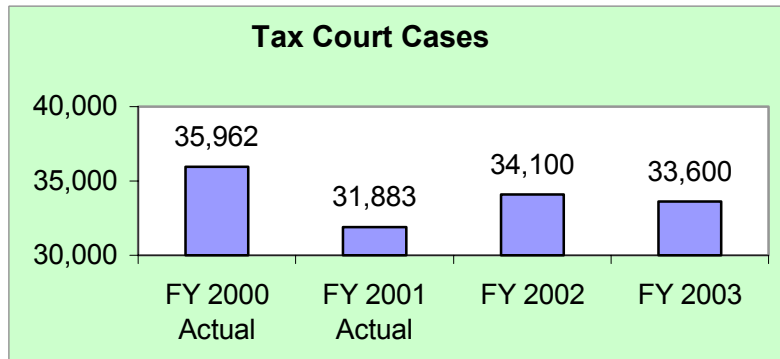
**FY 2002**

The number of Criminal Investigation cases completed is targeted to decrease slightly to 3,280. The decrease is projected for a number of reasons. The most significant of these is IRS commitment of resources to the War on Terrorism. While CI is actively involved in these efforts, there is little expectation that our contribution will be measured in terms of investigations completed. CI's financial expertise is being utilized to enhance investigations involving the money trail created by terrorist organizations. These efforts will often lead to outcomes not captured by this measure. The decrease is also a result of efforts to shift resources towards our core tax compliance mission. The increase in more complex and therefore time-consuming income tax investigations will result in less total investigations completed. However, it is anticipated that the shift of CI resources will increase the number of legal source investigations completed by 19 percent.

FY 2003

The number of Criminal Investigations completed is expected to decline to 3,150. However, the number of mission specific investigations completed will increase by about 9 percent. The decline in overall investigations completed is a direct result of the shift in resources, as well as the decline in cases initiated in prior years. While cases initiated are expected to rise in both FY 2002 and 2003, the decline in initiated investigations in prior years negatively affects this measure.

Measure 65: Tax Court Cases

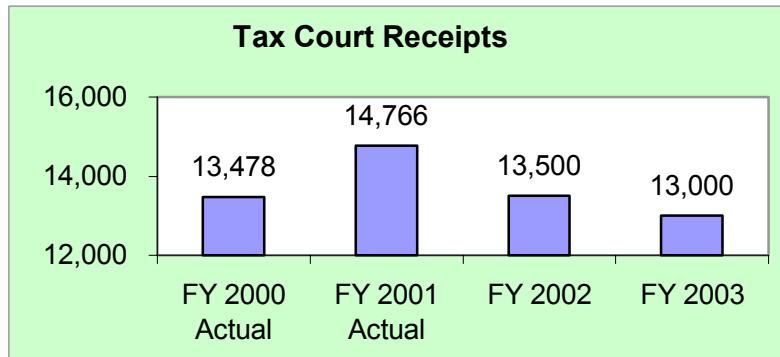
**FY 2002**

The total number of Tax Court cases in inventory is expected to increase modestly to 34,100 for the year. A decline in receipts will be offset by the complexity of existing cases that can take more than a year to resolve. It is important to consider the entire case counsel workload that consists of beginning inventory plus receipts. Any decreases in resources necessary to work Tax Court cases in FY 2002 will be redirected to meet the increasing demand from the IRS Operating Divisions for legal support in the areas of Pre-Filing programs.

FY 2003

The number of Tax Court cases in inventory is expected to decline modestly to 33,600, reflecting an approximate constant level of total cases in inventory for the year. The projected decline, which will be at a lesser rate than in FY 02, reflects an anticipated decline in receipts offset by increased activity in Appeals and Exam that will contribute to the filing of Tax Court cases by taxpayers at a relatively constant level. It is important to consider the entire case counsel workload that consists of beginning inventory plus receipts. Any decreases in resources necessary to work Tax Court cases in FY 2003 will once again be redirected to meet the increasing demand from the IRS Operating Divisions for legal support in the areas of Pre-Filing programs.

Measure 66: Tax Court Receipts

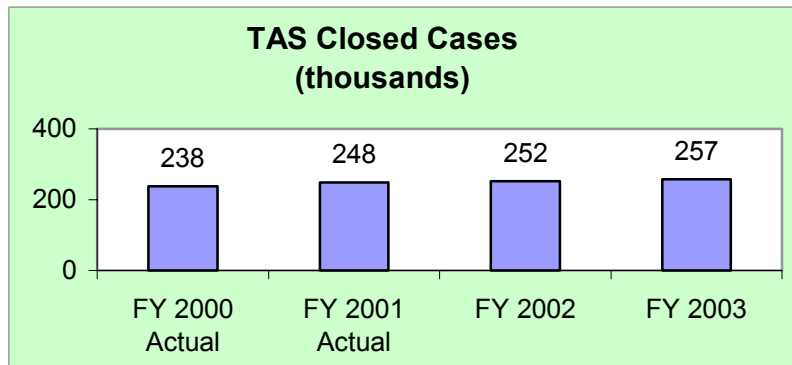
**FY 2002**

The number of Tax Court cases received is expected to decline by about 8% to 13,500. The decline in receipts will contribute to a modest increase in the overall inventory of tax court cases. Any decreases in resources necessary to work Tax Court cases in FY 2002 will be redirected to meet the increasing demand from the IRS Operating Divisions for legal support in the areas of Pre-Filing programs.

FY 2003

The number of Tax Court cases received is expected to decline by about 4% to 13,000, contributing to flat growth in the total Tax Court case inventory for FY 03. The projected decline in case receipts reflects activity in Appeals and Exam that will continue to contribute to the filing of Tax Court cases by taxpayers at a relatively constant level. It is important to consider the entire case counsel workload that consists of beginning inventory plus receipts. Any decreases in resources realized from the decrease in Tax Court cases in FY 2003 will be redirected to meet the increasing demand from the IRS Operating Divisions for legal support in the areas of Pre-Filing programs.

Measure 67: Taxpayer Advocate Service (TAS) Closed Cases

**FY 2002**

The number of cases closed will increase by 2 percent to 252,000. The new Integrated Case Processing (ICP) NT System will provide TAS caseworkers with an interface with other IRS databases. Caseworkers will be able to secure all the internal source information they need at the same time. This increased efficiency should increase the number of closures and increase customer and employee satisfaction. The planned redesign of the Taxpayer Advocate Management Information System (TAMIS) will facilitate inventory control and case data collection and analysis to assist in identifying “best practice” procedures. TAS will continue to survey taxpayers and use this information to identify areas of improvement.

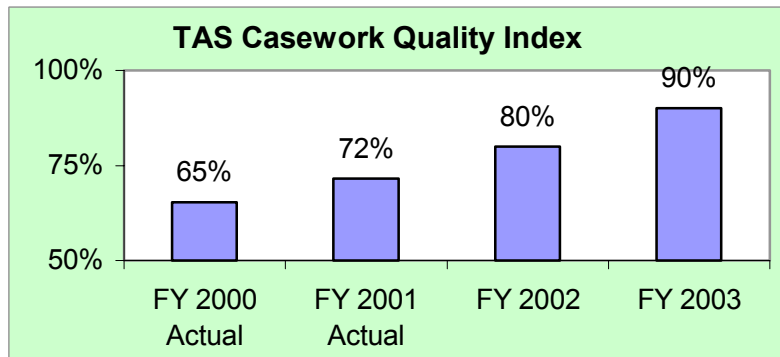
FY 2003

The number of cases closed will increase by 2 percent to 257,000 and receipts will begin to level off. TAS will continue to explore inventory redistribution (Staffing Model Study) throughout the organization and optimize the case volume per office. This will enable TAS to improve cycle time in some areas, and improve the closure rate while reducing existing inventories. Incorporating data gathered from the inventory studies and jointly working this information with the Operating Divisions will increase early resolution of taxpayer issues.

TAS caseworkers were given additional authorities for closing cases during FY2002, which should speed case processing by eliminating the need to send routine cases to the Operating Divisions for assistance. The centralization of some IRS programs, (Offers in Compromise, Innocent

Spouse, Audit Reconsideration), has improved overall processing times in these program areas, often directly impacting TAS' cycle time on these types of cases. Closing these cases quicker or not having them in inventory at all allows TAS to address real financial hardship cases rather than non-hardship cases.

Measure 68: TAS Casework Quality Index

**FY 2002**

Casework quality is expected to increase to 80 percent. TAS will convene a task force to review the customer satisfaction survey results and compare taxpayer experiences against the quality standards. Standards will be revised and incorporated as appropriate. TAS will continue its annual special review with the centralized review sites to ensure consistent application of quality standards. TAS will analyze the results from monthly quality reviews to determine if changes in procedures and training improved casework quality. TAS will continue to identify other areas needing improvement, continue training, and publish an annual report describing the results and the steps taken to improve TAS quality.

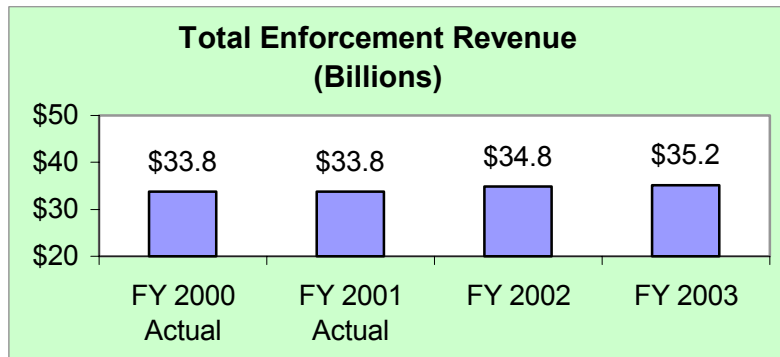
FY 2003

Casework quality is expected to increase to 90 percent. TAS will continue integrating current quality standards with other measures to achieve a more comprehensive understanding of the factors that drive quality customer service; improving timeliness in all customer contacts; and implement improvements to TAS' information and communication systems. TAMIS (Taxpayer Advocate Management Information System) upgrades will be implemented that will give caseworkers access to other information systems that will enable faster case resolution. TAS is currently testing providing toll-free telephone service access to our caseworkers, which will improve the flow of communications with our customers.

TAS will also continue to consolidate quality review sites; study inventory to better align resources and skills; and use Quality Review special reports to assist Area offices' in focusing on issues that will yield the greatest opportunities for improving overall quality results. By leveraging the

knowledge gained from a study addressing differences in Campus and Field quality results, operating procedures and approaches will be revised; and will have a positive affect on the quality of services provided to our customers.

Measure 69: Total Enforcement Revenue Collected

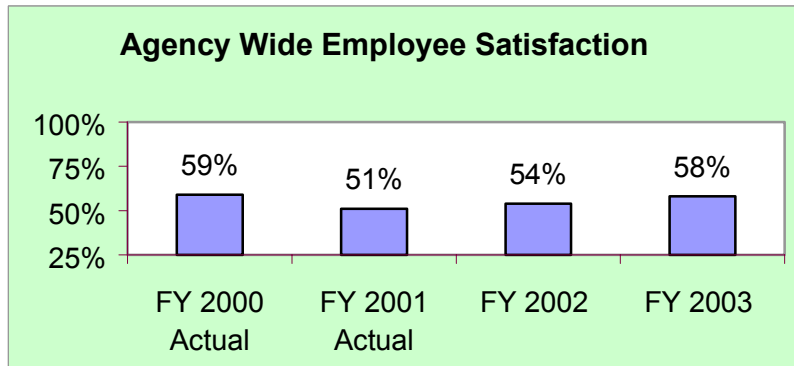
**FY 2002**

Enforcement Revenue is projected to increase by 3.0% to \$34.8 billion. This increase is based on the return of staff to revenue producing activities that had been detailed to support Customer Service and Innocent Spouse casework. The return of staff to regular enforcement casework is expected to have greater impact on revenue in future years since most enforcement revenue is received in years after the cases close. Also, the impact on revenue is expected to be offset by programmatic decisions intended to address areas of non-compliance that may direct staff into case work that takes longer to move through the process and that involves cases with somewhat lower yield rates.

FY 2003

Enforcement Revenue is projected to increase by 1.0% to \$35.2 billion. This increase is smaller than the 3% increase seen in FY 2002 because of anticipated changes in the mix of enforcement cases, some with slightly lower expected yields, resulting from programmatic decisions intended to address areas of non-compliance. However, these estimates may change noticeably as the IRS begins to incorporate the impact of both marginal yield and cost components into its resource allocation decisions.

Measure 70: Agency Wide Employee Satisfaction

**FY2002**

Data from the FY2001 annual all-employee Census workgroup survey will be used to determine what workgroup actions need to take place to improve employee satisfaction. Data from the FY2001 Climate Survey helps identify what issues IRS will continue working corporately in FY2002. Maturation of the Business Performance Reviews and the IRS Performance Management System will ensure follow through on actions taken to increase employee satisfaction.

Front-line employees will include, as part of their Critical Job Elements, their individual contributions to improving Employee Satisfaction. In addition, executives and managers include in their performance management plans commitments specific actions they will take to address significant trends or issues that influence employee productivity and/or quality of the work environment. Employees will continue to experience the benefits of the IRS modernization.

FY2003

Workgroups will use the census survey data to identify issues that influence the work environment and employee productivity. Data from the 2003 Corporate Climate Survey will be used to assess the effectiveness of Servicewide and Business Unit-wide actions implemented during FY2002 and to identify additional improvement opportunities for FY2004.

The linkage between Performance Management and the Employee Satisfaction measure will continue to strengthen as front-line employees include their individual contributions to Employee Satisfaction as part of their Critical Job Elements. In addition, executives and managers will continue to include in their performance management plans, commitments to specific actions they will take to address significant trends or issues

to improve employee productivity and/or quality of the work environment.

RESEARCH AND STATISTICS OF INCOME

Performance Goal: *Perform strategic and tactical research to anticipate and identify compliance and tax administration problems.*
– The IRS will collect and tabulate data with respect to individuals, corporations, partnerships, sole proprietorships, estates, nonprofit organizations and trusts. Approaches to measuring taxpayer compliance are being explored and developed.

FY 2002

The IRS research community will conduct studies and develop models and methodologies to support improved tax administration. Significant activities planned include studies of expanded hours for telephone access, installment agreements/offers in compromise, burden of tax compliance on taxpayers and tax practitioners, magnitude of the abusive tax shelter program and financial management controls. IRS is exploring and developing approaches to measure taxpayer compliance with reporting, payment, and filing requirements. Research will continue to ensure measurement of customer satisfaction of various customer segments. The National Customer Research study design will be fully implemented and development of an index to identify high-risk variable and apply weighting factors to help identify the potential for non-compliance will be completed. The IRS will work with treaty partners to perfect the risk assessment template for top-down evaluation of industries, practices, and business life cycles at risk for non-compliance. The IRS will redesign and expand portions of the sample currently used for individual study, and will identify and evaluate the impact of compliance activities.

FY 2003

The focus in FY 2003 will be on moving beyond work that is limited by IRS data and traditional analytical techniques toward work that incorporates more external data and increasingly uses expert systems, artificial intelligence, and data mining approaches. The IRS research community will continue to conduct studies and develop models and methodologies to support improved tax administration. Development and refinement of tax compliance measures will continue. Significant studies are planned on tax shelters and the issues stemming from increased globalization, business non-compliance with filing and payment requirements, compliance among small business and self-employed taxpayers, and compliance characteristics of taxpayer segments. In addition, resources are allocated to conduct strategic and tactical research, behavioral research, forecasting, and projections aimed at identifying customer needs incorporating feedback from internal and external customers, employees and business units.

Resource Summary

	FY 2001	FY 2002	FY 2003
Budget Authority (\$000s)	\$87,291	\$102,631	\$106,961
Direct FTE	831	913	913

These resources contribute to meeting the targets for measures reported in the Pre-Filing Taxpayer Assistance and Education; Filing and Account Services; and Compliance Services program activities.

INFORMATION SERVICES

Performance Goal: *Provide the information systems services required by IRS activities to effectively administer the nation's tax laws.* – The IRS is consolidating notice printing and mid-range computers, and developing and managing telecommunication services. To keep reasonable pace with industry software advances, IRS will replace a portion of its desktop/laptop inventory annually. In addition, the IRS will perform ongoing maintenance of hardware, software, virus detection, and other standard commercial applications.

FY 2002/FY 2003

The FY 2002 program plan identifies efficiencies in base funding. These efficiencies created savings that could be reapplied to improve service levels and to support other MITS priority programs. After covering base operations, senior management reviewed program input and aligned resources to support the following priorities:

- **Security** – FY 2002 funding for Security will provide various improvement project benefits. The Security improvement projects include:
 - Contingency Planning, Business Case Development, and Business Impact Assessments for an IRS-wide Business Resumption program;
 - Physical Security Upgrades for Computing Centers;
 - Ad Hoc Security Solutions;
 - Modernization Project Support;
 - Risk Management Reporting;
 - Special Projects Continuity of Government/Weapons of Mass Destruction Planning for IRS-wide Business Resumption; and
 - Mission Assurance and Centralized Security Management.
- **Core Infrastructure** – Modernize IRS' core business systems and infrastructure while maintaining the effectiveness of existing systems and infrastructure. Working within the framework of strategies and operating priorities, proactively engage all levels of IRS business management in defining IT objectives, solutions, commitments, performance metrics and improvement programs.
- **Consolidation of Mid-range Computers (Tier 2 Consolidation)** – Funding for Tier 2 consolidation will permit technical standardization in staff, equipment, hardware, software, and maintenance. Most importantly, the Tier 2 Consolidation Project mitigates the risk of computer failures. Tier 2 Consolidation will provide a Tier 2 infrastructure flexible enough to accommodate both the business reorganization and modernization efforts as well as improve management of this structure. Tier 2 will consolidate and standardize the Operating Systems,

Database Management Systems, and COTS products resulting in a centrally managed infrastructure, state-of-the-art equipment, common database management systems and a comprehensive disaster recovery.

- **Centralization of Asset Management** – FY 2002 resources will be used to apply effective and efficient centralized management of IT assets throughout the IRS. The Asset Management Program will be controlled and managed centrally by ITS nationwide for the IRS, using best practices.
- **Transition to Modernization (Tier A)** – Modernized systems are scheduled for phased implementation beginning in FY 2002, but will not replace any systems in the current operating environment until after 2003. Until current systems are phased out and replaced with more cost efficient solutions, the IRS must support both current and implemented modernized systems and provide resources for Modernization project development efforts.

Resource Summary

	FY 2001	FY 2002	FY 2003
Budget Authority (\$000s)	\$1,584,682	\$1,581,041	\$1,625,993
Direct FTE	7,441	7,499	7,499

These resources contribute to meeting the targets for measures reported in the Pre-Filing Taxpayer Assistance and Education; Filing and Account Services; and Compliance Services program activities.

INFORMATION SYSTEMS IMPROVEMENT PROJECTS

Performance Goal: *Develop and implement systems projects that respond to the specific requirements of one or more of the taxpayer groups served by IRS Operating Divisions.* – The IRS will improve its financial and administrative systems, ensure the security, privacy and reliability of its Information Technology (IT) infrastructure, and standardize and expand the range of services to taxpayers and Service employees.

This BAC supports near-term improvements or enhancements to business applications for specific business units in the tax processing or administrative and internal management systems on which the IRS depends.

IRS is implementing a portfolio management process to manage and prioritize these improvement projects (Tier B) at an enterprise level. Tier B projects are managed according to a formal life cycle methodology to ensure systems conformity with the overall technical architecture being established by the Core Business Systems Programs. The Tier B improvement projects are monitored within the Business Performance Review process.

FY 2002

For FY 2002 the budget request included \$40 million to fund Tier B Improvement Projects. The Service is continuing the implementation of sixteen projects, which began in FY 2001. Twenty-seven new projects have been identified to provide critical functionality in support of the Business and Functional Divisions mission. These projects increase customer value by modernizing existing business processes and technology, consistent with the enterprise architecture, business priorities and legislative requirements:

- Achievement of 80% electronic filing goals; enabling business and tax preparers to file many business forms, schedules and statements electronically;
- Providing a method of responding to taxpayer issues and concerns addressed to and from the Senate Finance Committee; provides for receipt, control, processing and analysis of taxpayer advocate criteria cases;
- Providing access to balanced measures and the underlying diagnostic data;
- Reducing the response time for appeals cases;

-
- Reducing taxpayer contact time and retaining information to assist downstream contacts with the taxpayer.

FY 2003

IRS is requesting a \$10 million increase to provide quality systems delivering the business vision of the IRS by continuing to support current near-term or new Tier B projects for specific business units. The \$10 million increase will be used to fund Tier B projects that support the following objectives:

- Facilitate front-line investigations of tax and related financial crimes and strengthen domestic investigative capabilities by providing one-touch query capability on subject information.
- Establish a system to manage records related to Criminal Investigations that will ensure electronically stored evidence is admissible in criminal court cases and that it is in full compliance with applicable laws and regulations for official records.
- Ensure the best evidence is presented during various judicial proceedings by modernizing the equipment used to analyze forensic evidence.
- Establish an integrated system to capture, manage and respond to taxpayer complaints, provide a streamlined process and substantially improve IRS complaint effectiveness, thus allowing IRS to meet its major strategic goal: service to each taxpayer.
- Increase voluntary compliance and protect revenue by utilizing the risk-based approach to workload selection. Differentiated treatments will be applied dependent upon a taxpayer's specific risk. Efficiencies in workload selection will ultimately improve examination and under-reporting yields, reducing burden on taxpayers by ensuring that only non-compliant customers fall into enforcement programs. Reductions in no change and screen-out rates will eliminate work and result in program efficiencies, enabling redirection of the workforce to more productive workloads. This will also result in increased revenues and reductions in cycle time.
- Additional improvement projects are being formulated for evaluation and prioritization in accordance with the established portfolio management process. These projects include: Counsel Workgroup Collaboration System, RICS Enhancement, Payment Receiving Kiosk, Research Stabilization, Media & Publication Architecture and Publishing, e-FOIA Reading Room, Electronic Data Exchanges w/States, Interactive PIA and Training Modules, IOD Operations & Maintenance, Integrated Voice/Video/Data, and Large and Midsize Business Management Information System.

Resource Summary

	FY 2001	FY 2002	FY 2003
Budget Authority (\$000s)	\$33,786	\$39,864	\$49,864
Direct FTE	0	0	0

These resources contribute to meeting the targets for measures reported in the Pre-Filing Taxpayer Assistance and Education; Filing and Account Services; and Compliance Services program activities.

BUSINESS SYSTEMS MODERNIZATION

Performance Goal: *Effectively manage the contract resources that support capital asset acquisition of business systems modernization.* – The IRS will make fundamental improvements in the way it carries out business by taking advantage of all appropriate technology. The IRS has published and updated a comprehensive technology blueprint to guide it through this multi-year project. Initiatives to expand electronic government and increase electronic filing alternatives will be pursued.

FY 2002/FY 2003

The IRS has embarked upon a comprehensive modernization program to produce world-class information systems that meet U.S. taxpayer needs and the Nation's tax administration goals.

The U.S. tax administration system collects \$2 trillion in revenues annually. IRS is critically dependent on a collection of obsolete, fundamentally deficient, computer systems developed over the last 35 years. They do not and will not allow the IRS to administer the Nation's tax system and provide essential service to taxpayers at an acceptable level of efficiency, effectiveness, and risk.

The 2003 release will begin the acceleration of applications supporting both IRS customers and employees. Business Systems Modernization (BSM) will have implemented basic building blocks, but will add additional supporting infrastructure services, and an increasing number of applications.

IRS will augment the infrastructure components installed in FY 2002 to provide bandwidth to handle increased numbers of users and additional applications. Security improvements will keep pace with the additional requirements, including increased usage of employee and customer Internet/Intranet/Extranet portals.

Increasingly, data will migrate to a modernized relational database. Taxpayers migrated to the Customer Account Data Engine (CADE) by the end of FY 2003 will include the entire 1040 family of electronically filed tax returns (full paid or refund), not including those with open issues or with power of attorney on the Centralized Authorization File. This migration will bring over 30 million accounts onto the modernized databases and result in quicker refunds for those taxpayers.

The Internet will become an increasingly important source of information to customers, and provide increased capabilities for communicating with IRS personnel. E-services applications will provide practitioners and business partners with additional automated self-service applications over the Internet.

BSM will introduce the initial set of Customer Account Management (CAM) functionality to assist IRS in managing a subset of its case workload. The goal is to increase the number of cases resolved with the first contact. For cases not resolved in the first contact, it will provide online and accessible information to enable an IRS employee to understand what the problem is, including information related to previous contacts and related IRS activity. This functionality will facilitate efficient and effective issue resolution.

Accurate, timely, and complete account data will be provided to IRS employees and customers through these new capabilities. CAM provides the foundation set of case assignment and management functionality that will allow retirement of all legacy, single-purpose case management systems such as the Integrated Case Processing (ICP) System. It will ultimately provide a single data source and a single case assignment/management system, coupled with customized toolsets for specific types of issues. A set of self-assisted applications is brought online to allow customers limited access to a subset of their account data and the ability to submit certain account adjustments.

We will introduce Reporting Compliance functionality to improve employee productivity through a quality work environment. We will give all applicable Business Operating Division employees the expanded functionality, which will include accurate and consistent tax computations to support reporting compliance activities across all taxpayer segments and the necessary forms and reports generation. Planned improvements include an integrated compliance planning process, focused examinations, remote real-time access to case information, and assignment of exams based on examiners' knowledge and skills. These improvements will increase revenue, reduce cycle time, and improve customer and employee satisfaction.

The implementation of a new Filing and Payment Compliance Operating Model will provide a wide range of enhanced capabilities including improved case selection, work flow management and treatment stream alternatives for taxpayers in the collection process. This redesigned process will affect high priority Small Business/Self Employed taxpayers in 2003 in a few pilot locations. These capabilities will be expanded during the second release to add locations and functionality for the remaining Small Business/Self Employed taxpayers as well as Wage & Investment taxpayers in 2004. These additional tools will contribute to a more effective use of critical human resources as well as increasing the yield/cost ratio and shortening the compliance cycle.

We will implement consolidated data for research and analysis, management information, and a host of operational uses through the first release of the Enterprise Data Warehouse (EDW). The EDW will provide the single, integrated data repository of payment/deposit, taxpayer account/return and case information, fully integrated with the general ledger. It will enable all IRS functions to access, analyze, and create operational and other reports that provide data necessary to effectively manage the IRS enterprise. The first release of the EDW will create the repository for modernized individual taxpayer account data provided by the Custodial Accounting Project (CAP). CAP ensures effective financial management of revenue transactions including accurate and timely reporting of individual receipt and refund activity.

The Human Resources (HR) Connect project will leverage Treasury's department-wide human resources modernization efforts to provide a state-of-the-art human resources management system. It will improve HR administration by providing a single, centralized repository of such data. It

will allow employees and managers self-service access and limited update capabilities to employee data, thereby reducing HR resource requirements, and will facilitate accurate financial data by centralizing all HR information into one datastore.

The Integrated Financial System (IFS) will enable the IRS to meet regulatory and oversight financial reporting requirements through the implementation of a Commercial Off the Shelf (COTS) solution. This project will deliver the internal financial reporting capabilities needed to develop and track budgets and expenditures. We will implement a core financial capability, including general ledger, accounts receivable, accounts payable, cash, cost accounting, and financial reporting. IFS will be a Joint Financial Management Improvement Program (JFMIP) compliant system.

BUSINESS PROJECTS

E-Services 2003 Release 3 will provide online application for third party status, authentication and authorization, access to education and communication resources available on the IRS Intranet and Intranet sites, exchange of secure communications, electronic Power of Attorney/Tax Information Authorization (POA/TIA) application, electronic Taxpayer Identification Number (TIN) matching application, and electronic transcript delivery request.

Customer Account Management (CAM) will provide modernized customer relationship management by building a complete and integrated history of customer interactions. CAM Release 1 will provide functionality to include employee user interface to allow account view and update, online account creation by employee, workflow management tools, account notice issuance, billing and error reports, by 2004.

Filing and Payment Compliance (F&PC) will implement core collection capabilities and enhance self-correction. Release 1 in 2003 will provide skill base case routing, monitoring compliance results, customer access to tax laws, and regulations, generate target notices, plus provide taxpayer with self correction mechanism. Release 2 in 2004 will provide appropriate treatment streams, adjust workloads for case routing, capture, store, and mine taxpayer history, ensure consistent taxpayer rights, assist in compliance planning, manage inbound/outbound call volume.

Reporting Compliance (RC) will implement basic report generation and tax computation across all operating divisions. It will automate existing service center examination support activities and deliver decision analytic tools, risk-based models for accurate and efficient case selection, and case management core technologies.

HR Connect (HR) will deploy a fully integrated human resources system. Release 1 will replace Position Management, Recruitment, and Personnel Action Requests (PAR) with an enterprise resource planning Commercial Off the Shelf (COTS) package for better integration and efficiency. It will also provide two new features: Employee Self-Service and Manager Self-Service.

DATA PROJECTS

Customer Account Data Engine (CADE) IMF. CADE will create applications for daily posting, settlement, maintenance, refunds processing, and issue detection for taxpayer tax account and return data. Release 2 will build the database that will replace the existing Individual Master File (IMF) processing systems. Release 3 will allow for electronically processing of Wage & Investment returns with additional taxpayer segments with increasingly more complex tax returns and /or balance due returns.

Enterprise Data Warehouse (EDW) /Custodial Accounting Project (CAP) will provide an integrated enterprise data warehouse to support organizational data needs, performance measurement, and tax operations process improvements. By 2003 EDW will provide the Revenue Data Mart allowing management reporting to be performed by business users. By the end of 2004 all data from Business Master File (BMF) Return Transaction File (RTF) (1120 and 941 returns plus partial TRDB will be available in Release 2.

Integrated Financial Services (IFS) will develop the detailed functional requirements for a Commercial Off the Shelf (COTS) solution to support internal management requirements for financial and management planning, execution and reporting. Each release will represent a distinct usable segment. Release 1 will replace the Core Financial Systems (CFS) and include budget formulation information, plus implementation of a Cost Accounting System. Release 2 will focus on Property Accounting/Management, Travel Management, Procurement Management, Performance Management, Seized Property Management, and administrative Data Warehousing.

CORE INFRASTRUCTURE SUPPORT PROJECTS

Infrastructure Shared Services (ISS) will establish a program to build and deliver an agile infrastructure that is scalable, interoperable, flexible, manageable, and features standardized operations and a single security and enterprise systems management framework. This infrastructure will enable us to deploy modernized business systems and fully integrate with the current processing environment to support data access, databases, web based service delivery for taxpayers and internal users, and do so in a fully secure and optimally managed operational environment. ISS is an umbrella program for multiple projects including Security, Technology Infrastructure Release (STIR), Telecommunications Near-Term, and Enterprise Systems Management (ESM).

Development Integration and Test Environment (DITE) is composed of a Virtual Development Environment (VDE) and an Enterprise Integration and Test Environment (EITE). The VDE provides a software development environment with standardized tools, information, and services. The VDE provides a repository for source code, libraries, documentation, application program interface (API) definitions, references, and help information. The EITE builds a comprehensive integration and testing environment to support integration and testing of components from multiple projects.

Resource Summary

	FY 2001	FY 2002	FY 2003
Budget Authority (\$000s)	\$93,616	\$391,593	\$450,000
Direct FTE	0	0	0

These resources contribute to meeting the targets for measures reported in the Pre-Filing Taxpayer Assistance and Education; Filing and Account Services; and Compliance Services program activities.

EARNED INCOME TAX CREDIT PROGRAM

Performance Goal: *Expand customer service and enforcement activities to reduce erroneous filings and payments associated with the Earned Income Tax Credit.* – The IRS is focusing on outreach and education of tax preparers, compliance visits by agents, assessing penalties, and criminal investigations of EITC fraudulent claims.

FY 2002

An increased compliance emphasis will continue to impact the number of credit returns audited and taxpayer and preparer compliance. These efforts will assist taxpayers and tax preparers in determining eligibility for the Earned Income Tax Credit and ensure accurately filed claims. Since the inception of the Service's EITC Initiative, taxpayer education has played a vital role in seeking to curb erroneous EITC claims through extensive community education and outreach activities. Each territory office will have a person responsible for EITC outreach. All around the country, each office will conduct local campaigns that serve individuals for whom English is a second language, low-income taxpayers, and organizations/advocacy groups of EITC eligible taxpayers. Additional volunteer sites will be established throughout communities to assist EITC eligible taxpayers with return preparation.

FY 2003

Non-compliance with Earned Income Tax Credit (EITC) exposes the federal government to billions of dollars of risk. The IRS will continue to apply resources in the EITC program to enhance taxpayer compliance through a balance of research, outreach, education, assistance and compliance enforcement activities. Enhanced research activities and projects (such as the Dependent Database) focus on EITC claimant characteristics and are designed to improve education and outreach products, and measure the effects of Service-wide programs on compliance levels for the EITC-eligible taxpayer population. The IRS will maintain the EITC Outreach strategy to reach eligible non-claimants, promote preparer due diligence, educate partners regarding EITC law, and assure effective implementation of pre-filing, filing and post-filing initiatives. The IRS will continue emphasis on compliance to impact the number of credit returns audited and taxpayer and preparer compliance. Emphasis will be placed on expanding examinations of the duplicate tax identification number (TIN) repeater population. The use of the Dependent Data Base as an external data source will be expanded to identify non-compliant taxpayers for both EITC and non-EITC. EITC Referral Automation cases will be built into the Dependent Database in a joint effort with Criminal Investigation to improve identification of non-entitlement in the early filing stages.

Resource Summary

	FY 2001	FY 2002	FY 2003
Budget Authority (\$000s)	\$149,308	\$153,940	\$154,346
Direct FTE	2,196	2,353	2,353

These resources contribute to meeting the targets for measures reported in the Pre-Filing Taxpayer Assistance and Education; Filing and Account Services; and Compliance Services program activities.

SHARED SERVICES SUPPORT

Performance Goal: *Effectively provides the logistical services required by IRS activities to administer the nation's tax laws.* – The IRS is reengineering standardized processes and identifying areas to continue expanding electronic government. E-commerce alternatives are being explored to improve customer access, streamline vendor interactions and ensure effective use of stewardship and property assets..

FY 2002

This shared services program provides internal management of the human, logistical, contractual and labor/management resources necessary to fulfill the IRS's mission and strategic goals. A governance board was developed to prioritize and approve mandatory and large capital real estate projects such as lease expiration/relocations, security upgrades, service center enhancements and customer service sites. The Facilities Master Plan developed in FY 2001 to address organizational unit needs, technological capacities, workload volumes, and optimal housing configurations will move into its long-term phase; focusing on solving critical space issues resulting from operational program shifts identified in FY 2001. Furniture replacement plans to emphasize Service Center upgrades and other IRS workplaces will be developed and implemented. Memorandums of Understanding, process standardization and reengineering efforts focusing on the space alterations and realignments, space acquisition, property acquisition, mail delivery, hiring and grievance processes will help identify outsourcing alternatives, streamline processes, and increase customer satisfaction.

IRS continues to expand its electronic government capabilities through a growing number of methods for procuring products and services, such as electronic catalogs, reverse auctioning and increased interfaces. Web-based customer interfaces will be developed to improve customer service. WebRTS and WebIPS will be implemented to provide a platform to improve vendor access and customer connectivity. After implementation, a market survey, requirements assessment, and additional e-commerce studies will be conducted to identify additional ways to improve customer access and streamline vendor interactions. Use of e-commerce technology will be explored to identify automated processes to replace the paper system of convenience checks for emergency salary payments; "in and about" travel expenses, and small purchases. Use of performance-based service contracts will be increased and a program will be implemented to track and measure the percentage of performance-based contracts being used.

The Safety and Health Information Management System (SHIMS) will be fully functional in FY 2002. It will improve information and reporting capabilities for Worker's Compensation claims and provide a national safety reporting system for incidents and accidents

FY 2003

Efforts initiated in FY 2002 will continue. Reengineering efforts continue with the implementation of completed processes and additional processes to be reengineered will be identified. Special programs and efforts will be implemented to emphasize safety issues related to facilities in Service Centers.

HR Connect will be partially operational by FY 2003. It will provide accurate information for management of the IRS workforce, improve the accuracy and timeliness of personnel actions and will improve communications to all customers. Efforts to continue expanding electronic government will continue. E-commerce initiatives identified in the requirements assessment and market survey will be implemented. Efforts to expand the use of performance-based service contracts will continue. Support of the PRIME contract will continue to be a primary focus.

Resource Summary

	FY 2001	FY 2002	FY 2003
Budget Authority (\$000s)	\$1,175,700	\$1,101,209	\$1,158,564
Direct FTE	4,640	4,968	4,968

These resources contribute to meeting the targets for measures reported in the Pre-Filing Taxpayer Assistance and Education; Filing and Account Services; and Compliance Services program activities.

GENERAL MANAGEMENT AND ADMINISTRATION

Performance Goal: *Provide effective leadership and direction in the administration of the nation's tax laws.* – The IRS' organization and business practices are designed to reflect its customer's needs and address significant human capital issues. Competitive sourcing alternatives are being identified and financial systems are being updated to improve financial performance. The IRS is fully integrating its strategic planning, budget and performance management process to more effectively achieve its strategic goals and objectives.

FY 2002

IRS will implement human capital programs to align compensation with performance and provide opportunities to acquire skills needed in new IRS occupations. IRS will develop policies and procedures to ensure that training is developed and delivered efficiently using technology-based education and performance support. National recruitment programs will be continued, including national advertising and recruitment and retention initiatives. Results from the first customer service surveys will be analyzed and plans developed to improve results. Employee surveys will also be analyzed and plans developed to improve employee satisfaction. Strategic goals that balance customer satisfaction, employee satisfaction and business results will be utilized when setting organizational objectives, establishing goals, assessing progress and results, evaluating individual performance and planning for future needs. IRS has identified a number of areas to include in the IRS's competitive sourcing program including IRS' three Area Distribution Centers. IRS is designing and developing two major financial systems, the Custodial Accounting Project (CAP) and the Integrated Financial System (IFS), to improve overall financial management. These systems will provide resolution of many long standing financial management weaknesses.

The IRS will implement a public information campaign to assist taxpayers in meeting their tax obligations and to increase confidence in the overall fairness of the tax system using both print and electronic public service advertising. The IRS will continue strategic relationship management of key internal and external customers and educate congressional committees and members of Congress about the programs and initiatives of the IRS, including progress on systems modernization. The IRS will continue to be responsive to GAO, TIGTA, and Congress and demonstrate to Congress that the IRS is working to improve its operations. The IRS will have a greatly enhanced e-FOIA (electronic Freedom of Information Act) capability, permitting expanded service to the public.

Continued

FY 2003

IRS will continue to address human capital resource issues by implementing programs to align compensation with performance, recruit and retain highly skilled personnel, and create a training strategy to give our employees the necessary knowledge and skills to provide the services that our customers require. IRS will implement improvements and refine the focus of new initiatives based on results of the employee satisfaction surveys. Based on customer satisfaction survey results, IRS will focus on delivering customer-defined services that meet taxpayer demands in the manner most convenient and appropriate for the particular taxpayer. Strategic goals and objectives and critical measures will continue to be refined. Firm competitive sourcing targets will be established and IRS will explore the potential to pursue further managed competition in the information technology and shared services areas. Work on the design and development of the CAP and IFS will continue.

IRS will develop educational products and a marketing plan to assist taxpayers and practitioners in fulfilling their tax obligations. The Strategic Planning Process ensures significant involvement by management in a balanced IRS program plan. Goals that balance customer satisfaction, employee satisfaction and business results are utilized when developing organizational objectives, assessing progress and results, evaluating individual performances and planning for future needs.. Initiatives that involve major systemic improvements will enhance our ability to provide quality service. The IRS will continue to be responsive to GAO, TIGTA, and Congress and demonstrate to Congress that the IRS is working to improve its operations. In addition, the IRS will continue to pursue beneficial partnerships with key external organizations and groups that are actively involved in tax administration. The IRS will have a greatly enhanced e-FOIA (electronic Freedom of Information ACT) capability, permitting expanded service to the public.

Resource Summary

	FY 2002	FY 2002	FY 2003
Budget Authority (\$000s)	\$548,435	\$613,451	\$645,649
Direct FTE	3,327	3,504	3,504

These resources contribute to meeting the targets for measures reported in the Pre-Filing Taxpayer Assistance and Education; Filing and Account Services; and Compliance Services program activities.

III. Special Analysis

CUSTOMER SERVICE STANDARDS

This section provides a listing of the IRS' current set of published customer service standards. These standards address IRS products and services for its major customer groups, which include Treasury bureaus, OMB, and Congress. Several of these standards are also presented in the performance table related to their appropriate budget activity. For FY 2001, the bureau met 1 of it 6 customer services standards.

Customer Service Standards						
	FY 1999	FY 2000	FY 2001		FY 2002	FY 2003
	Performance	Performance	Target	Performance	Final Target	Proposed Target
IRS will increase the number of Individual Returns filed electronically (millions)	29.3	35.3	42.3	40.2	46.0	52.9
IRS will increase the number of Business Returns filed electronically (millions)	3.2	3.2	3.7	3.9	4.3	4.6
IRS will increase the percent of Individual Returns Filed Electronically	23.4%	28.0%	32.6%	30.7%	35.0%	39.0%
IRS will issue a refund within 21 days once a complete and accurate tax return is filed electronically Refund Timeliness – <i>e-file</i> %	99.6%	100%	98%	97%	98%	98%

Customer Service Standards						
	FY 1999	FY 2000	FY 2001		FY 2002	FY 2003
	Performance	Performance	Target	Performance	Final Target	Proposed Target
IRS will issue a refund within 40 days once a complete and accurate paper tax return is filed Refund Timeliness – paper %	83.2%	90%	Baseline ¹	96.8%	98.4%	98.4%
IRS will provide a toll-free telephone level of service rate between 85% to 90%	53.3%	59.1%	63.4%	56.4%	71.5%	76.3%
IRS will achieve a Correct Response Rate to Toll-Free Tax Law Calls (New Measure in FY 2001)	N/A	N/A	81.6%	79.1%	85%	N/A

¹ Refund Timeliness will use a new methodology beginning in FY 2001, data will be baselined in FY 2001 and a new FY 2002 target will be identified

Major Management Challenges and High Risk Areas

Over the last several years the General Accounting Office (GAO) and the Treasury Inspector General for Tax Administration (TIGTA) have identified several Management Challenges and High-Risk Areas facing the IRS. While specific steps and actions to address these issues have been identified, progress toward addressing these issues is addressed through IRS' existing program activities. Measures of IRS program activities serve to show progress in addressing the management challenges and high risk areas. Below is a cross-walk showing the relationship between the management challenge and the program activities.

Management Challenge or High Risk Area	Program Activity									
	Pre-Filing	Filing	Compliance	Research & SOI	Information Services	Information Services Improvement Projects	Business Systems Modernization	EITC	Shared Services	General Management & Administration
Security of the IRS – Employees and Facilities									X	
Security of the IRS – Information Systems					X					
Systems Modernization of the IRS							X			
Integrating Performance and Financial Management – Performance Management										X
Integrating Performance and Financial Management – Financial Management										X
Processing Returns & Implementing Tax Law Changes During Filing Season	X	X								
Complexity of the Tax Law										
Tax Compliance Initiatives	X	X	X	X						
Providing Quality Customer Service Operations	X	X	X	X						
Erroneous Payments; Noncompliance with EITC	X	X	X					X		
Taxpayer Protection and Rights	X	X	X							
Human Capital										X
Collect Unpaid Taxes	X		X							
Revamp Business Practices to Meet Taxpayer Needs	X	X	X	X						X

Table: Management Challenge Cross-walk to Program Activity

The following pages summarize each Management Challenge and High-Risk area along with actions identified for completion in FY 2002 and beyond. The issue descriptions provided for these challenges were drawn directly from documents prepared by the TIGTA and GAO.

Management Challenge or High Risk Area: *Security of the IRS – Employees and Facilities*

Issue

Recent terrorist activity within the United States demonstrated very graphically that the physical security of IRS employees, equipment, and structures should be of utmost concern to IRS management. Immediately after the tragic events in New York City and Washington, DC, all Facilities Management Officers were directed to make an immediate assessment of each IRS office within their service area and, in concert with the General Services Administration and local law enforcement, to take whatever action is necessary to safeguard IRS personnel and assets. Information was also provided to the appropriate personnel with regard to the inspection of incoming mail and packages.

Actions Planned or Underway

IRS developed National Physical Standards which establish security enhancements for areas such as guard services, blast mitigation, and IRS infrastructure for all IRS offices. An assessment of all IRS buildings and facilities was conducted based upon the current and proposed security standards. Contingency plans were developed for all 10 campuses to address HAZMAT threats for the upcoming filing season. In response to the anthrax threats, protective equipment such as gloves, masks, and lab coats was purchased and distributed to all Real Estate and Facilities Management offices to be available for IRS employees upon request and all mail opening activities were consolidated throughout the IRS. In addition, the IRS participates in government-wide programs that plan for and minimize the risk of catastrophic events on mission achievement. Two of these are the Community of Government and the Weapons of Mass Destruction programs. These programs provide education and the ability to plan, with other agencies, for response to major disruptive events. The following actions will continue to reduce the security risks facing IRS' employees and facilities.

- Develop posters, tri-fold brochures and a Director's briefing package to provide information and instruction to managers and employees regarding Anthrax and other HAZMAT threats. (1/02)
- Develop a plan to upgrade communications systems, such as public address systems and closed circuit televisions for all ten IRS campuses. (1/02)
- Develop procedures for the fit testing of protective masks in all ten IRS campuses. (1/02)
- Develop an action plan to address deficiencies in offices that do not meet the National Physical Security Standards. (2/02)
- Complete Phase 1 initiatives to contain Service Center Automated Mail Processing System (SCAMPS) and mail extraction units in all campuses to isolate these areas from the other units for the 2002-filing season. (2/02)
- Develop Phase 2 initiative to contain SCAMPS/mail extraction units for future filing seasons. (2/02)
- Complete security risk assessments of all level 2 and 3 buildings. Take actions necessary to prepare campuses for 2003 filing season. (12/02)
- Complete security risk assessments of all level 1 buildings. (12/03)

Management Challenge or High Risk Area: *Security of the IRS – Information Systems*

Issue

Although computer security has measurably improved, computer security control weaknesses continue to place automated systems and taxpayer data at serious risks to both internal and external threats. As the primary revenue collector for the United States, IRS is a target for both terrorists and hackers. This threat has increased over the last few years with more interconnectivity of systems. Until stronger security controls are in place over its information systems, tax-processing operations remain vulnerable to disruption. Furthermore, the sensitive taxpayer data maintained by IRS is at risk of being disclosed to unauthorized individuals, modified and improperly used, or destroyed, thereby unnecessarily exposing taxpayers to financial crimes such as identity fraud.

Actions Planned or Underway

As security awareness has increased, the IRS' activities and efforts for creating corporate solutions to agency-wide problems are transitioning toward a mission assurance risk management and measured corrective actions approach necessary to maintain security continuity during the modernization and reorganization of the IRS. In the past IRS had focused on ensuring that we had effective security programs in place to adequately safeguard taxpayer records, employees, facilities, systems and other resources. However, ongoing restructuring and modernization efforts have resulted in the need to develop more effective security infrastructure approaches and processes, including the Computer Systems Incident Response Center, to better detect system and network intrusions.

The IRS focuses on a continuous program of evaluating and improving security programs and processes. In addition, we will continue to drive solutions, develop sound security processes, and establish mechanisms that enable us to assess security risks and make decisions regarding those risks. It is only through these partnerships that the IRS can successfully address this management challenge. The following actions will continue to reduce the security risks facing IRS' Information Systems.

- Focus FY2002 reviews to align with strategic initiatives, modernization priorities and the IRS Security Assessment Framework analysis. (1/02)
- Enhance UNAX program and assess the effectiveness of the program. (6/02)
- Complete implementation of the Security Systems Certification and Accreditation process. (7/02)
- Continue to meet requirements of federal physical security initiatives and enhance physical security at selected IRS facilities to a Department Of Justice Level V. (9/02)
- Develop a security-training program. (10/02)
- Review the posture of IRS security and focus on working with business partners to develop solutions to identified vulnerabilities. (9/03)
- Continue the move toward a comprehensive mission assurance approach. (9/03)
- Continue development of a security awareness program that ensures security messages are communicated effectively to appropriate audiences.

(ongoing)

Management Challenge or High Risk Area: *Systems Modernization of the IRS*

Issue

The ability to balance the goals of helping taxpayers meet their tax responsibility and improving overall compliance with tax laws depends on the successful completion of the modernization effort. Modernization of technology is crucial to implementing the new business vision of providing world-class service to taxpayers. While the development of new technology evolves, existing operations must continue, and improvements must be made to meet the needs of tax administration and demonstrate to taxpayers the IRS' commitment to improved service.

Actions Planned or Underway:

The following actions will enhance the IRS' ability to modernize technology.

- Ensure ongoing projects are aligned with the Enterprise Architecture (EA) in accordance with compliance certification process (1/02)
- Fully implement a risk management program. (2/02)
- Establish a centralized Configuration Management repository. (3/02)
- Fully define and institutionalize standard configuration management procedures. (6/02)
- Perform internal SA CMM level 2 capability compliance assessment. (6/02)
- Identify configuration items for current production environment impacted by near-term modernization project releases for FY 2002 and FY 2003. Project 2002 releases (3/02). Project 2003 Releases (9/03)
- Conduct an external Software Capability Evaluation (SCE) performed by independent assessor to ensure compliance with Software Engineering Institute (SEI) Software Acquisition (SA) Capability Maturity Model (CMM) level 2 requirements. (12/02)

Management Challenge or High Risk Area: *Integrating Performance and Financial Management - Performance Management / GPRA***Issue**

The IRS Strategic Plan and Budget, which includes the Annual Performance Plan and Annual Performance Report, satisfies a major requirement of the Government Performance & Results Act (GPRA). It will take several years to achieve a fully acceptable set of balanced measures that can be used at all levels of the organization. Balanced measures are being aligned with the employee performance evaluation system to clearly link the work of individual managers and employees to the mission and goals. Additionally, the effectiveness of compliance improvement initiatives and current compliance levels can not be accurately determined until a measure of taxpayers voluntary compliance is developed.

Actions Planned or Underway

Due to modernization efforts, current performance measures are being re-evaluated. The following actions will help ensure a balanced performance measurement system that will focus on business results, customer satisfaction, and employee satisfaction will be fully implemented

- Develop user and system needs to support the Business Performance Management Model and consider additional long-term system improvements. (9/02)
- Establish a baseline for improvement projects and initiate a project tracking mechanism to ensure that projects deliver proposed benefits. (9/02)
- Fully implement performance reporting for key managerial cost accounting measures. (09/02)
- Develop balanced measures at the operational management levels and implement reporting mechanisms. Measures will be used in assessing the IRS' overall performance in delivering its mission and strategic goals. Measures such as voluntary compliance, burden, overall productivity, overall customer satisfaction, etc may be included. (10/02)
- Fully implement data reporting for all Service-wide Strategic Measures. (9/03)

Management Challenge or High Risk Area: *Integrating Performance and Financial Management - Financial Management*

Issue

IRS' current financial systems alone can not produce reliable information necessary to prepare financial statements in accordance with federal accounting standards. The data produced from the current financial system has to be reconciled with other subsidiary systems to produce reliable financial statements. Further, IRS does not fully comply with the requirements of the Federal Financial Management Improvement Act (FFMIA).

IRS' remediation plans do not identify resource commitments for all remedial actions, independent verifications were not performed for all implemented remedial actions, and sufficient explanations were not provided for the necessity of revised remedial action intermediate target dates.

In addition, the current financial systems can not provide reliable cost accounting information. While a balanced measurement system could provide information on the results of programs to improve customer service and increase compliance, the cost of achieving these results must also be known. Without reliable cost accounting information it is difficult to measure the effectiveness of various tax collection and enforcement activities and to judge whether resources are appropriately allocated among competing priorities. Reliable cost-benefit performance information related to collection and enforcement activities is also necessary to better assist Congress in making informed funding decisions concerning the appropriate levels and uses of resources.

Actions Planned or Underway

To improve overall financial management, IRS is implementing two major systems: the Custodial Accounting Project (CAP) and the Integrated Financial System (IFS). CAP will provide a single, integrated repository of taxpayer account information and collections information to support custodial financial reporting; to produce an initial, critical component of an enterprise data warehouse; and to provide resolution of many long standing financial management weaknesses, including compliance with existing statutes and regulations. CAP will provide a Taxpayer Accounts Sub ledger (TASL) and a Collections Sub ledger (CSL) that directly feed a standard government general ledger. TASL Build 1 will develop the data repository of taxpayer account information and integrate it with the general ledger, making TASL accessible for management analysis and reporting. IRS has completed the Architecture Phase of the CAP. The Systems Development Phase is scheduled to be completed in December 2002, with deployment of Build 1 of TASL scheduled for March 2003.

IFS is designed to address material weaknesses in financial reporting and bring the IRS into compliance with FFMIA. The objective of the IFS project is to implement an Enterprise Resources Planning (ERP) Commercial-Off-The-Shelf (COTS) package, which is JFMIP certified and addresses legislative requirements for the IRS in support of Financial and Revenue Accounting, Property and Procurement processes. IFS will be deployed in two releases. The first release is scheduled for deployment on October 1, 2003 and will include the Core Financial System (General Ledger, Accounts Payable, Accounts Receivable, Funds and Cost Management, and Financial Reporting), as defined by JFMIP and Budget Formulation. The second release is scheduled for deployment on October 1, 2004 and will include Travel Management, Administrative Datamarts, Procurement Management, Property and Performance Management.

IRS has also made significant improvements with its remediation plan. All weaknesses identified by the GAO during its FY 2000 financial statement audits were included in the remediation plan and intermediate target dates were identified for all remedial actions.

The following actions are also planned:

- Complete an ERP COTS package evaluation and selection that supports the IFS requirements. (1/02)
- Develop and submit a Baseline Business Case(s) for review and approval to proceed with the first release of IFS. (4/02)
- Complete the Enterprise Life Cycle effort. (9/03)

Management Challenge or High Risk Area: *Processing Returns & Implementing Tax Law Changes during the Filing Season*

Issue

The filing season impacts every American taxpayer and is, therefore, always a highly critical program. Many programs, activities and resources have to be planned and managed effectively for the filing season to be successful. Critical programming changes for the filing season must receive priority over other programming requests. This is further complicated by the modernization efforts that are updating and replacing the very core tax processing systems needed to deliver a successful filing season. In addition, the IRS must ensure systems capacity and telecommunications will accommodate the new electronic filing requirements and the accuracy and utility of information received and processed.

Actions Planned or Underway

The IRS' Year 2002 filing season will be impacted by few legislative changes while responding to significant operational changes. The following actions will enhance the successes of the Year 2001 and future filing seasons.

- Implement a secure transaction-based web site. (1/02)
- Incorporate new procedures required by the Economic Growth and Tax Relief Reconciliation Act of 2001.(1/02)
- Complete centralization of all employment tax processing, including information returns, by consolidating operations in two Submission Processing sites. (1/02)
- Migrate workloads to dedicated Individual Master File (IMF) and Business Master File (BMF) processing sites and move printing and mailing of notices to two consolidates sites and begin migration of telephone calls by application in the Tax Law Product Line. (9/02)
- Implement registered user access to enable authorized third parties and practitioners to request and receive transcripts electronically, submit account inquiries electronically and submit powers of attorney and disclosure authorizations electronically. (9/02)
- Implement taxpayer identification number (TIN) matching with payors. (2/02)
- Continue efforts on the Resource Optimization Project to ensure productive employment for the Submission Processing workforce. (9/02)
- Implement the first phase of the Correspondence Methods Feasibility Study that will end the policy of returning tax returns for missing tax return information and begin correspondence with taxpayers to obtain the missing information, while holding the returns in suspense. (9/02)
- Conduct a pilot, assess and roll out the Remittance Transaction Research (RTR) system to provide payment information on-line. (9/02)
- Expand e-filing by adding additional business forms. (9/02)
- As part of the Notice Prioritization Project, implement procedures to prioritize notice review to ensure that the notices with the greatest potential for error are scheduled for review. (9/03)
- Ensure the Corporate Filing Season Readiness Process is operational. (Annual)
- Assess the current Filing Season and determine needed improvements for the next Filing Season. (Annual)

Management Challenge or High Risk Area: *Complexity of the Tax Law*

Issue

Tax law complexity is the highest-ranking problem individual and business taxpayers had with the IRS, according to the FY 2000 Taxpayer Advocate's Annual Report to the Congress. Many problems exist because of tax law complexity. These problems range from individual tax issues, to complex corporate and international issues. Stakeholders from divergent constituencies have informed decision-makers about the problems and recommended solutions. It is unlikely that the Internal Revenue Code will be simplified at one time. Therefore, the IRS has the challenge to remove as much complexity as possible as a service to taxpayers. The effect of tax law complexity is compounded as the IRS modernizes. Since complexity can be a major factor in the cost of operations, the IRS must devote resources to simplifying taxes while at the same time modernizing its systems and processes.

Actions Planned or Underway

IRS implemented the Mentor and Monitor (M&M) Prototype to help small business owners understand their tax responsibilities. The prototype was designed to inform new employers of education and assistance opportunities, assist them in complying with employment tax requirements, monitor their tax compliance, and identify and help resolve delinquencies in paying taxes and filing returns. In addition, a suite of pre-filing initiatives to assist Large and Mid-Size Business taxpayers was piloted and implemented. The following actions will enhance IRS' ability to reduce the complexity of the tax law:

- Integrate Probe and Response (P&R) methodology into IRS publications and make their use the standard tool for Field Assistance technical employees. (10/02)
- Hire approximately 400 additional technical employees, including at least one Tax Resolution Representative (TRR) at every Taxpayer Assistance Center (TAC). (10/02)
- Train Customer Service Representatives in one or more technical and account topics, enabling them to be more proficient in assisting customers quickly and accurately. (9/02)
- Implement procedures to prioritize notice review to ensure that the notices with the greatest potential for error are scheduled for review. (9/03)
- Build EITC Referral Automation cases into the Dependent Database to improve identification of non-entitlement in the early filing stages. (09/02)

Management Challenge or High Risk Area: *Tax Compliance Initiatives*

Issue

The IRS' goal of providing world-class service to taxpayers hinges on the theory that, if the IRS provides the right mix of education, support, and up-front problem solving to taxpayers, the overall rate of voluntary compliance with the tax laws will increase. The compliance program (examining tax returns and collecting tax liabilities) addresses those taxpayers who do not voluntarily comply. During the last decade, the number of tax returns selected for examination by the IRS has decreased, while the number of tax returns filed by taxpayers has increased. Resources allocated to compliance activities decreased and as a result, revenue collected decreased by \$5 billion and gross accounts receivable increased by \$41 billion. In addition, the global economy is rapidly growing and generating increasingly sophisticated business transactions. Acceleration of world trade and e-commerce in the business world exceeds the government's capacity to administer taxes. Significant improvements are needed in international compliance programs to identify and examine the issues presenting the greatest risks.

Actions Planned or Underway

IRS will deploy a range of initiatives using education and outreach to improve the overall rate of voluntary compliance as well as increase efficiency and effectiveness by updating and re-engineering work processes to make better use of resources. The following activities will allow IRS to implement a balanced compliance program.

- Analyze Correspondence Examination programs to determine areas of non-compliance that can be addressed through the use of soft notice and math error treatments. (06/02)
- Advance voluntary agreements, reducing the need for traditional enforcement actions. (9/02)
- Implement an integrated trust fund compliance strategy to increase compliance with employment tax deposit and payment requirements. (9/02)
- Develop improvement strategies to address escalating and aged Offers in Compromise (OIC) inventory and to reduce open OIC inventory within six to twelve months. (9/02)
- Enhance and realign the current Examination legacy systems to help identify the most productive returns to examine. Information will be made available to examiners to conduct more effective examinations. (9/02)
- Expand the range of information documents and returns that may be filed electronically for Corporate Taxpayers. (9/02)
- Develop examiner capability to recognize and develop e-commerce issues. Priorities include Internet access; employee Internet training; International cooperation; and, identification and resolution of E-Commerce taxation issues. (9/02)
- Work with the Federal Trade Commission's Internet Lab to complete development of IRS Internet Audit Techniques Guide (9/02)
- Expand inter-agency work on Internet identification globally through the Organization for Economic Cooperation and Development (OECD) and other international organizations. (9/02)
- Prepare employees to deal with globalization issues through training, issue and knowledge management support and access to the Internet. (9/02)

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- Provide leadership, within treaty provisions, regarding compliance risk assessment for multinational corporations. (9/02)
 - Design an organizational structure to deal with globalization issues and define the roles and responsibilities of Revenue Service Representatives consistent with globalization. (9/02)
 - Promote a global strategy and unified U.S. Government approach on technical tax assistance by the Tax Administration Advisory Services Division (TAAS) and others. (9/02)
 - Enhance the Automated Underreporter System (AUR), expand the use of Oral Authority and expand AUR matching of mortgage interest and capital gains documents. (12/02)
 - Train more employees on compliance-related work and provide technical backup for filing season activities, including Taxpayer Assistance Centers and R-mail sites, thereby reducing the need for Compliance resources traditionally used in those areas. (9/03)
 - Target resources to improve voluntary compliance among start-up businesses (9/03)
 - Provide bi-monthly summary Accounts Receivable Dollar Inventory (ARDI) reports to ensure appropriate emphasis is placed on payment compliance and accounts resolution and develop ARDI measures that gives insight to new causes of growth.(9/03)
 - Increase internal capabilities by defining and developing a Global Team approach. Define roles and responsibilities of Global Team Manager, Global Team Coordinator, International Industry Specialist, International Field Assistance Specialist. (9/03)
 - Refine globalization index to identify cases appropriate for the Global Team approach. Identify appropriate risk assessment factors for globalization. Continue efforts to develop globalization index and UMP risk factors. Develop globalization index to identify high-risk variables and identify potential for non-compliance. (9/03)

Management Challenge or High Risk Area: *Providing Quality Customer Service Operations*

Issue

Providing top quality service to every taxpayer in every transaction is integral to the IRS' modernization plans. There are many ways in which the IRS provides customer service. The most direct include toll-free telephone service, electronic customer service, written communications to taxpayers, walk-in service, and accurate and timely tax refunds. Each of these services affects a taxpayer's ability and desire to voluntarily comply with the tax laws.

Actions Planned or Underway

The IRS is committed to assisting customers in satisfying their tax responsibilities by providing easier, more convenient access to tax information and assistance and improving the quality of communication for taxpayers through a variety of avenues. The following actions will enhance the IRS' ability to provide world-class customer service.

- Reinstate the Practitioner PIN for 2002 enabling two methods of electronic signatures. (01/02)
- Create a bar-coding system for adjustment notices and refund checks so they can be mailed in the same envelope. (1/02)
- Develop a formal training plan and schedule to improve employee knowledge of tax law, marketing, communication and relationship management skills. (06/02)
- Target and build quality relationships with internal and external partners and intermediaries to educate and support taxpayer and practitioner programs. (09/02)
- Optimize BMF notices and correspondence to improve the quality and clarity of computer-generated notices issued to taxpayers. (9/02)
- Reconfigure hours of operation. (09/02)
- Provide employers with access to on-line employment tax and wage information through the Simplified Tax and Wage Reporting System (STAWRS) (9/02).
- Reconfigure the Practitioner Hotline into a centralized system. (9/02)
- Develop a profile of new businesses and create and refine products and services to better meet the needs of these taxpayers. (9/02)
- Train Customer Service Representatives in one or more technical and account topics, enabling them to be more proficient in assisting customers quickly and accurately. (9/02)
- Analyze and train the volunteer workforce to create subject matter experts both internally and externally. (09/02).
- Increase availability and accessibility of electronic products and services. Thirty-two new tax forms and schedules will be available electronically, electronic acknowledgement and withdrawal options will be provided, credit card options will be expanded and filing and payment due dates for e-file returns will be extended. (1/03)
- Develop a Spanish-language Internet web site and create a centralized, searchable, web-enabled knowledge database that lists all alternate language products. (9/03)

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- Enhance the intelligent call routing system to increase taxpayer access and customer satisfaction by routing calls to automated services and assistance sites dedicated to specific types of work. (Multi-year)
 - Identify optimum service delivery locations through the use of Post-of-Duty Modeling and stakeholder input. Provide additional locations by adding new Taxpayer Assistance Centers; expanding the use of nomad mobile units and circuit riding; and, relocating, expanding and renovating current Taxpayer Assistance Centers.(Multi-year)

Management Challenge or High Risk Area: *Erroneous Payments; Noncompliance with EITC***Issue**

Both the President and the Congress have expressed concerns with the large amount of erroneous payments made by Federal agencies each year. The risk of improper payments increases in programs with complex criteria for computing payments, a significant volume of transactions or emphasis on expediting payments. As the nation's tax administrator, the IRS collects 95 percent of the federal tax revenues. For FY 2001, the IRS collected approximately \$2 trillion and processed over 233 million tax returns. Although many IRS programs are susceptible to erroneous payments, particularly vulnerable is the Earned Income Tax Credit (EITC) Program. Subsequent to studies showing billions of dollars of EITC noncompliance, Congress provided additional funding and enforcement tools to improve EITC compliance. In 1998, a five-year EITC compliance initiative directed at the major sources of EITC noncompliance was initiated. As a result, the number of EITC-related errors involving social security numbers had been reduced and millions of dollars in erroneous EITC claims have been stopped. However, there is still an unknown portion of erroneous EITC refunds that are likely attributable to factors other than fraud. Achieving full participation by eligible taxpayers; ensuring compliance through verification of taxpayers' eligibility; and, reducing inherent vulnerabilities (multiple use of dependent Social Security Numbers) continue to be high risk areas. Additionally, despite extensive programs and efforts to detect and stop fraudulent claims, the ability to systemically identify refund schemes involving business returns and associated credits remains a challenge.

Actions Planned or Underway

Through expanded customer service and public outreach programs, strengthened enforcement activities and enhanced research efforts, overclaims and erroneous filings associated with EITC will be reduced. Compliance with EITC will be increased through the following actions.

- Build EITC Referral Automation cases into the Dependent Database to improve identification of non-entitlement in the early filing stages. (09/02)
- Implement an integrated trust fund compliance strategy. (09/02)
- Match Forms 1041 and 1065 Schedule K-1 to target compliance resources. (09/02)
- Expand the use of the Dependent Database as an external data source to identify non-compliant taxpayers for both EITC and non-EITC. (09/02)
- Expand examinations of the Duplicate TIN repeater population. (09/02)
- Use K-1 matching to identify K-1 income that is not accurately reported on individual income tax returns. (9/02)
- Develop the Transcript Delivery System (TDS) to provide taxpayers with their transcripts. (9/02)
- Reengineer the Account Management project to provide employees with the tools needed to access complete, timely, and accurate taxpayer information.(9/02)
- Expand the use of EOAD/CIT (Examination Operational Automation Data Base/ Classification Issue Tracking) data to identify non-compliant tax returns. (9/02)

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- Rebuild audit guidelines to achieve greater tailoring of the audit process through more risk-driven determinations. (9/02)
 - Pilot a BMF Questionable Refund Program to identify, investigate, and prosecute BMF scheme promoters during the 2002 filing season. (9/02)
 - Enhance the Electronic Fraud Detection System to include Forms 1120, 1065, and 720. (9/02)
 - Pilot an information matching system to identify refund schemes involving business returns and associated credits. (9/03)
 - Develop cross-functional methods of identifying and addressing employment tax schemes and develop an employment tax strategy. (9/03)
 - Expand BMF fraud detection capabilities to include daily listings, scoring formulas and other tools for identifying BMF fraud. (9/03)

Management Challenge or High Risk Area: *Taxpayer Protection and Rights*

Issue

The legislative changes required by the Restructuring and Reform Act of 1998 (RRA 98) continue to have a profound impact. RRA 98 included fundamental changes to tax law procedures, and required the IRS to change its organizational structure from one that was geographically structured to one that was set up to serve particular groups of taxpayers with similar needs. Most RRA 98 provisions, including massive training programs for thousands of employees, have been modified or implemented. Significant management attention will be required to evaluate the effectiveness of the reforms. Additionally, the IRS' reorganization focused on taxpayer groups presents both a risk of treating groups of taxpayers differently and an opportunity to use specialized knowledge to promote compliance among all taxpayers equitably. The IRS is committed to treat all taxpayers equitably, and strategic plans indicate equitable treatment of taxpayers is included in efforts to promote compliance among business taxpayers.

Actions Planned or Underway

IRS must continue to demonstrate that the security and integrity of its electronic systems and the confidentiality of taxpayer information are among the most important responsibilities to the American people. IRS will continue to administer the credit card contract to ensure protection of taxpayer data and credit card numbers. To reduce the volume of paper jurats, alternative methods of signature will be expanded. Additionally, IRS will work with the Technology Security Subcommittee to establish security policy and address issues and continue system modernization efforts to enhance IRS' security program.

The IRS will continue to act to reduce the number of willful violations of taxpayer rights. Specifically:

- Implement a secure transaction-based web site. (1/02)
- Ensure alternative signature initiatives comply with IRS authentication policy. (4/02)
- Implement the next phase of the Checkbox initiative to allow taxpayers to designate through a Third Party Checkbox an individual preparer to serve as their designee to discuss tax matters and notices with IRS without having to file a separate authorization form. (9/02)
- Combine the Centralized Authorization Files into a central repository to eliminate the need for taxpayers to submit multiple third party authorization requests when dealing with numerous issues. (9/02)
- Evaluate both individual and operation performance using methods that promote quality and customer service by deploying balanced measures to the appropriate levels. (9/02)
- Clearly link employee Critical Job Elements and managerial performance expectations to organizational quality goals. (9/02)
- Redesign all examination work processes and assess the requirements IRS is legally required to perform for every examination. The redesign process will ensure that IRS meets legal requirements and recognize taxpayer rights as outlined in the RRA98 provisions relating to the audit process. (9/02)

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- Redesign internal Collection processes, policies and procedures, and update workload selection and inventory delivery systems. This will clarify and streamline RRA98 related procedures, such as referrals to Appeals, thereby making it easier for front line employees to comply with RRA98's multi-faceted requirements. (9/02)
 - Review implementation status of RRA 98 provisions and resolve issues at monthly Executive Steering Committee meetings. (9/03)
 - Require quarterly certifications that enforcement statistics have not been improperly used in evaluating employees from all appropriate supervisors. (9/03)
 - Improve closed case quality measures giving Area and Territory managers access to more timely and accurate quality performance data for using in making operational decisions. (9/03)

Management Challenge or High Risk Area: *Human Capital*

Issue

The GAO considers strategic human capital management as a high-risk area for the government, and the President's FY 2001 budget has added human capital to its list of Priority Management Objectives. Inadequate attention to strategic human capital management has created a government-wide risk of eroding the capacity of some agencies to perform their missions. Like many other government agencies, the IRS faces a range of serious personnel management issues, ranging from recruiting, training, and retaining employees to problems associated with the IRS' recent reorganization and modernization efforts. During FY 2001, the IRS struggled with a continuing need to properly staff, train, and provide adequate tools for employees.

Actions Planned or Underway

Changes to IRS' personnel management practices were key elements of the much larger restructuring of the IRS. The new flexibilities and authorities provided under RRA '98 have enabled IRS to attract, motivate, and retain the kind of employees needed to meet the challenge of modernizing the IRS, and to sustain long-term improved performance. Great progress has been made in using new flexibilities –as well as the creative use of existing authorities - to introduce streamlined, customer-focused personnel management policies, programs, and strategies that have paved the way for the overall IRS modernization program. A Workforce Transition Strategy using state-of-the-art techniques to match and shape the workforce to fit IRS' new organization was developed to provide advice, guidance, support, and oversight to all business units undergoing reorganization and/or restructuring. A competency-based evaluation and placement process used for filling GS-14 and 15 managers positions was developed. A Senior Manager Pay Band was established to more effectively address grade imbalances and to universally increase individual and organizational performance thresholds by ensuring that only truly outstanding managers advance to the top of the pay band.

Recruitment and relocation bonuses and retention allowances programs were redesigned to better serve the agency's efforts to recruit, relocate and retain employees in key positions. A group of employees was identified to serve as full-time recruiters for the next 18 to 24 months. Each recruiter has been assigned specific colleges and universities with whom they will establish an on-going relationship. A Human Resources Investment Fund (HRIF) was implemented to provide monetary assistance for training and education to enhance individual employee and organizational growth. Employee critical job elements and performance standards were aligned with our Service-wide Balanced Measurement System and five critical job elements common to all of our occupations for appraising individual employee performance were created.

The IRS will continue to address Human Capital issues through the following actions:

- Use the Senior Manager Pay Band system to more effectively allocate salary resources to promote and encourage individual and organizational excellence.
- Expand the pay band system to all front-line and mid-level managers.

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- Expand the competency-based evaluation and placement process for mid and top-level managers, to include grade 12 and 13 Group Managers.
 - Evaluate the pilot executive bonus system, which allows executives to determine a target bonus percentage for annual performance bonuses at the beginning of the performance year, for possible application to the rest of the executives in the IRS.
 - Continue to offer an extensive array of Web- and computer-based training for employees via the Internet, Intranet, and by CD-ROM covering subjects such as communications, customer service, project management, finance, accounting, and leadership.
 - Continue to provide an extensive array of executive development training activities that prepare our participants for top-level leadership positions.
 - Continue to encourage executives establish relationships with either their Alma Mater or schools in their local areas.
 - Continue partnerships with employee organizations to help recruiters establish relationships with community-based organizations.
 - Continue the state-of-the-art advertising campaign that was established to promote the IRS as an employer of choice.
 - Design a personnel demonstration project to improve the management of IRS' executive corps by introducing two types of executive-level positions, Senior Executive and Senior Professional. The dual-track executive categories will also allow us to better target training and education resources to the two distinct type of leaders, and give more flexibility in tailoring personnel management programs and strategies that best meet the needs of each group.
 - Rehire retired federal executives on a part-time basis and allow them to receive the full combined value of their salaries and annuities.
 - Make competitive and non-competitive term appointments in the Senior Executive Service for up to five years.
 - Place executives hired from outside the Government in the eight hour annual leave accrual category, and allow them to receive advanced leave credits immediately upon appointment.
 - Increase the maximum performance bonus that can be given to executives to 30% of base pay.
 - Establish performance appraisal rating levels that are the same as those used for our other managers, and introduce a multi-year performance appraisal cycle.

Management Challenge or High Risk Area: *Collect Unpaid Taxes*

Issue

Reliable and timely financial, operational and compliance data is not available to help target efforts to collect billions of dollars in unpaid taxes. As a result, the federal government is exposed to significant losses of tax revenue and compliant taxpayers bear an undue burden of financing the government's activities. While proceeding with modernization efforts, some key collection actions such as levies and seizures have declined since 1997. These declines may increase the incentives for taxpayers to either not report or underreport their tax obligations. Attempts to identify taxpayers who have not paid the taxes they owe are made through various enforcement programs. The IRS' inability to fully pursue such cases is attributable to a decrease in staff, reassignment of collection employees to support customer service activities, and additional staff time needed to implement certain taxpayer protections that were included in the IRS Reform and Restructuring Act of 1998. Additionally, inadequate financial and operational information has hindered development of cost-based performance information for tax collection and enforcement programs.

Actions Planned or Underway:

The introduction of risk-based Collection collective strategies coupled with STABLE FTE increases, continued specialization of the workforce, and technology efficiencies will allow the Service to realize productivity gains. The following actions will improve the IRS' ability to collect billions of dollars in unpaid taxes.

- Develop a risk-based compliance strategy to use knowledge regarding taxpayer behavior, history, and needs in the collection decision process to ensure that the highest priority cases get worked first and reduce the number of accounts closed as currently not collectible. (9/02)
- Centralize the processing of Offers in Compromise.(9/02)
- Develop a comprehensive non-filer strategy that includes sole proprietors who failed to file tax due returns and to identify non-filing taxpayers who have a tax liability.(9/02)
- Use non-Compliance resources during the filing season to minimize impact on Compliance casework. (9/02)
- Implement an integrated trust fund compliance strategy to identify and target noncompliance with employment tax deposits and payment requirements. (9/02)
- Implement a project to gain 100% participation in the State Income Tax Levy Program (SITLP).(9/02)
- Redesign internal processes, policies, and procedures, and update the antiquated system of workload selection and inventory delivery.(9/02)
- Redesign all examination work processes to enable IRS to rebuild the audit guidelines and to achieve greater tailoring of processes through risk-driven determinations. (9/02)
- Enable access to credit card payment option for delinquent taxes up to three years old. (1/03)
- Target resources to improve voluntary compliance among start-up businesses by building a knowledge base of filing and reporting compliance for small business taxpayers.(9/03)
- Partner with state sales tax agencies to match gross sales (state sales tax) and gross receipts (Federal, Schedule C) data. (9/03)

Management Challenge or High Risk Area: *Revamp Business Practices to Meet Taxpayer Needs*

Issue

The ability to balance the goals of helping taxpayers comply with tax laws and improving overall compliance depends on successful modernization. This modernization effort encompasses every facet of operations, including the organizational structure. On October 1, 2000, a new organizational structure was put in effect to better meet taxpayer needs and to provide an improved work environment. However, the standup of the new organizational units is far from the last step in the modernization process, business practices must also be revamped to better meet taxpayer needs.

Actions Planned or Underway

The Service's operations are facing various issues and challenges in transitioning to the new organizational structure. The following actions and changes to current business practices will allow the IRS to better meet taxpayer needs.

- Complete centralization of all employment tax processing two Submission Processing sites (1/02)
- Test feasibility of correspondence imaging to allow Customer Service Representatives (CSR) immediate on-line access to customer correspondence.(09/02)
- Improve and enhance employee manuals and tools.(09/02)
- Provide new tools and information such as the Remittance Transaction System (RTR), Notice Viewing and Correspondence Imaging to employees. (Multi-year)
- Improve training to Toll-free/Adjustments workforce by determining skill gaps. (09/02)
- Integrate business systems such as Automated Offer in Compromise, Automated Lien System, Inventory Delivery System and Automated Trust Fund Recovery System onto a single platform. (9/02)
- Provide a single-point for electronic filing and test prototype solutions for the combined electronic transmission of federal and state employer quarterly tax and wage reports.(9/02)
- Prototype an application to provide employers a quicker method to securely access, apply for, and receive a Federal EIN on-line. (9/02)
- Reconfigure the Practitioner Hotline to a centralized system. (9/02)
- Centralize BMFreturns processing to two processing centers. (9/02)
- Centralize the processing of Offers in Compromise (OIC). (9/02)
- Continue efforts to ensure that work is allocated to the proper operating division by implementing standardized criteria to reassign compliance cases. (9/02)
- Respond to taxpayer demand and implement pre-filing agreement program. (9/02)
- Conclude and evaluate the pilot for industry issue resolution. (9/02)
- Identify Abusive Corporate Tax Shelter schemes early.(9/02)

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- Develop a methodology to detect returns with Abusive Corporate Tax Shelter features and apply appropriate compliance resources. (9/02)
 - Improve ability to select and examine returns at highest risk for non-compliance. (9/02)
 - Conduct Strategic Relationship Management training with all operating divisions. (9/02)
 - Modify and improve the Interactive Organizational Directory and Speaker's Corner.(9/03)
 - Continue to implement the new corporate identity strategy to reflect the culture of the restructured IRS. (9/03)
 - Consolidate Non Masterfile (NMF) processing from ten to two sites, and workload redistribution for FTD/SCRIPS from five to two sites. (9/03)

Cross-Cutting Coordination and Partnering Efforts

The IRS has formed numerous strategic partnerships with other Federal agencies, state and local governments, and private sector organizations in an effort to realize the IRS Mission, Goals, and Objectives. The cross-cutting coordination efforts outlined below are geared to improve customer service, manage compliance risks, and make tax administration more efficient. IRS has strengthened its partnerships with State and Local Government organizations in an effort to improve Pre-Filing, Filing, and Compliance services. Release of Federal tax returns and/or tax information will only be made in compliance with the requirements of Title 26, the Internal Revenue Code of 1986. The specific section on confidentiality is Title 26, §6103.

The matrix below underscores the IRS partnering efforts and provides a roadmap to how IRS will coordinate its partnerships in this next fiscal year. Three sections across the top of the matrix indicate the three main programs at IRS where partnerships enhance program outcomes. IRS partnering activities, summarized by the far-left column, link the Service's external organization partnerships with the three main IRS programs.

IRS Cross-Cutting Coordination and Efforts and Partners			
Partnering	Pre-Filing	Filing	Compliance
State and Local Government Partnerships	State Tax Agencies	State Tax Agencies	State Tax Agencies
Criminal Investigation			Department of Treasury Department of Justice Drug Enforcement Agency Federal Bureau of Investigation U.S. Secret Service
Database Sharing		Social Security Administration Health & Human Services Department of Education Federal Emergency Mgmt. Agency Small Business Administration Department of Agriculture Department of Veterans Affairs Housing & Urban Development State Tax Agencies Financial Management Service Treasury IG for Tax Administration U. S. Postal Service	Social Security Administration Health & Human Services Department of Education Federal Emergency Mgmt. Agency Small Business Administration Department of Agriculture Department of Veterans Affairs Housing & Urban Development State Tax Agencies Financial Management Service Treasury IG for Tax Administration U. S. Postal Service
Document Matching		Social Security Administration Department of Justice	Social Security Administration Department of Justice

IRS Cross-Cutting Coordination and Efforts and Partners			
Partnering	Pre-Filing	Filing	Compliance
Education and Assistance Programs	Small Business Administration Taxpayer Associations Department of Labor Social Security Administration		
Make Filing Easier		Social Security Administration Department of Labor Department of Treasury Small Business Administration	

The following discussion captures the high-level detail of the Cross-Cutting Coordination Efforts and Partnership outlined in the matrix above and spells out how working with other federal, state, and local organizations will help the IRS succeed.

State and Local Government Partnerships

The IRS partners with state and local law enforcement and revenue organizations to accomplish the operational priorities of the Pre-Filing Taxpayer Education and Assistance program. The Service is partnering with the states of Illinois, Maryland, Pennsylvania, and Washington to develop a World Wide Web based application that would allow small businesses in these states secured access to apply for and receive Employee Identification Numbers on-line. Additional cooperative efforts are underway with state governments such as an effort to streamline the Employer Identification Number assignment process so that new businesses only have to obtain one number for Federal, State, and Local Government tax purposes. The IRS has also partnered with the states of California, Georgia, Iowa, Louisiana, Minnesota, Montana, Nevada, and Texas to study how Federal and State employment tax and wage reporting laws could become more uniform, thus simplifying reporting for small businesses.

The Service also engages in cooperative efforts with the State Vital Statistics offices and with Commercial Off-The-Shelf tax return preparation developers to maintain consistency in software programming with the updated Earned Income Credit tax law requirements. The Volunteer Tax Assistance and Tax Counseling for the Elderly Program often works in tandem with state and federal agencies to provide tax assistance to low income, elderly, and non-English speaking taxpayers. In some states, equipment and space is provided by the state functions for these sites and in other states, training is provided by the IRS entities for the volunteers. The IRS partners with state and local governments to provide customers with one-stop service relative to tax responsibilities by engaging in development of non-traditional sites for servicing customers that will result in a more convenient and comprehensive level of service.

The Federal Unemployment Tax Act (FUTA) certification program is the method the IRS uses to verify with states/agencies that the credit that was claimed on the Form 940 or Schedule H was actually paid into the states' unemployment funds. The 50 states, District of Columbia, Puerto Rico and the Virgin Islands participate in this program.

The IRS is exploring partnering opportunities with local and state government taxpayer advocates with a specific focus on activities to ensure the protection of taxpayer rights. Preliminary meetings are being scheduled in FY 2002 to identify goals and objectives and coordinate the joint efforts of the local, state, and federal government.

Criminal Investigation

The Webster Report recommended that the Service develop a coordinated Compliance Strategy for criminal investigation activities. IRS began this process by developing an Interim Compliance Strategy, which was implemented in FY 2000. The strategy redefines workload into the three distinct categories of Legal Source Tax Crimes, Illegal Source Financial Crimes and Narcotics Related Financial Crimes. The document also specifies guidelines for workload selection in each of these three categories and provides the field with direction in how to identify high level cases that meet the criteria. External stakeholders, such as the Department of Treasury, Department of Justice Tax Division and the executive Office of the Organized Crime and Drug Enforcement Task Force, were consulted during the development of the compliance strategy. The IRS

continues to commit resources to support the National Drug Control Strategy and expects a significant increase to the level of reimbursement for the narcotics related financial crimes program.

IRS supports the National Money Laundering Strategy, and is deeply involved in implementing all aspects of it. The Strategy sets forth a series of action items designed to accomplish four fundamental goals in the fight against money laundering. One key action item that the strategy calls for is the designation of High-Risk Money Laundering and Related Financial Crime Areas. The designation of this types of crime is intended to concentrate law enforcement efforts at the federal, state, and local level on combating money laundering in high-intensity money laundering zones, whether based on drug trafficking or other crimes.

The IRS is also providing greater support to the national effort to combat foreign and domestic terrorism through increased participation in the Federal Bureau of Investigation's Joint Terrorism Task Forces (JTTFs). The unique investigative skills of IRS special agents will be utilized to investigate members of extremist factions who espouse anti-taxation philosophies and file false and fictitious financial instruments against members of the judiciary and federal, state and local governments. We will also assist in investigating efforts to raise funds to support foreign terrorist groups.

The IRS will support the USSS in their efforts to provide comprehensive security for the 2002 Winter Olympics Games in Salt Lake City. Security will be provided at each athletic venue. It is critical that the IRS and USSS work closely to ensure that there are no incidents at the Winter Games and/or any incidents are kept to a minimum.

Database Sharing

The Social Security Administration provides enhancements to their Social Security number database, which interfaces with the Service's databases to validate Taxpayer Identification Numbers. IRS continues to coordinate with Health and Human Services to obtain data that can be used as a filter for the purpose of administering those sections of the Internal Revenue Code of 1986 that grant tax benefits to individuals supporting a child and/or providing a residence for a child.

The Electronic Tax Administration office is working with the Prime contractor on development of a Transcript Delivery System. The system will be deployed in 2002 and will provide return and account transcripts, W-2s and Verifications of Non-Filing. Other Federal agencies have contacted the IRS seeking an electronic means to verify income for disaster relief programs and federally backed loan, grant or subsidy guarantees. The IRS is currently working with the Department of Education to determine their need for income verification for student financial assistance. The Federal Emergency Management Agency and the Small Business Administration for disaster relief programs have contacted IRS. The Department of Agriculture, Department of Veterans Affairs, and the Department of Housing and Urban Development have expressed an interest in this system as well. The Department of Education and State Agencies are some of the customer segments included in the 2002 release.

IRS has interaction with the United States Postal Service on a National Change of Address program to update master file addresses with taxpayer address information listed with the Postal Service. IRS is receiving weekly updates to the database from the Postal Service to reduce redundant mail, mail sent to the same taxpayer at different addresses and undeliverable mail.

A provision of the Tax Reform Act of 1997 authorized the collection of tax debts through continuous levies on Federal payments. As a result, IRS has entered into an interagency agreement with the Financial Management Service that allows IRS to provide information on delinquent taxpayers that receive Federal payments to them. The agreement also requires IRS to reimburse them a fee for each Federal payment they process for the IRS. IRS has agreed to pay a preset fee amount in FY 2001 with the understanding that the Treasury Inspector General for Tax Administration will conduct a review of the methodology for setting fees. Additionally, an effort by the IRS is underway to examine the potential for modifying congressional language to assess the processing fee from the taxpayer. The result of this program funding issue will impact the FY 2002 agreement between these two agencies.

Document Matching

The Combined Annual Wage Reporting Program is a joint effort between the IRS and the Social Security Administration to reconcile employer payroll tax data filed with the IRS and wage data reported for Social Security purposes on forms W-3 and W-2. The result of funding this program through the STABLE Initiative will be a more accurate recordation of employee-employer contributions and enhanced integrity of the Social Security Trust Fund by ensuring that employee earnings are timely and properly posted to Social Security's database. The IRS and external stakeholders such as the Department of Justice Tax Division have committed to supporting the Trust Fund Compliance Initiative with legal action when necessary.

Education and Assistance Programs

IRS will be focused on expanding business partnerships with established institutions, including the Small Business Administration and industry/professional organizations to provide specialized education and assistance programs. IRS has already partnered with the Small Business Administration to create tax products and services that make it easier to access and understand tax information, services, and products. For example, the Small Business Resource Guide CD-ROM was created and produced by the IRS as a major step to addressing the educational tax needs of the small business community. The development of the CD-ROM was a collaborative effort among IRS, Small Business Administration, the U.S. Department of Labor, and the Social Security Administration subject matter experts.

Continued

Make Filing Easier

IRS has entered into an Interagency Agreement with the Department of Labor to process Return of Employee Benefit Plan forms (Form 5500) shared by Labor, IRS, and the Pension Benefit Guaranty Corporation. IRS and Labor share the costs of Form 5500 processing. The Employee Retirement Income Security Act Filing Acceptance System was created by the agencies working to streamline pension plan reporting and disclosure per a National Performance Review initiative. The Department of Labor fully funded the development and scale-up costs of enhancing the prototype, and requires a commitment of funding from IRS for each processing year. IRS has worked cooperatively for many years with the other agencies charged with enforcing the Employee Retirement Income Security Act of 1974 (ERISA). Employee Plans, DOL and PBGC work together to continuously improve the annual reporting and disclosure requirements of Titles I and II of ERISA, as well as administer compliance programs and develop and issue guidance to the employee benefit community.

The IRS created a Permanent Disaster Response Team, which, in coordination with the Federal Emergency Management Agency, is to assist taxpayers in clarifying and resolving tax matters associated with a Presidentially declared disaster. One of the duties of the Disaster Response Team is to postpone certain tax-related deadlines for up to 120 days for taxpayers determined to be affected by a Presidentially declared disaster.

The Simplified Tax and Wage Reporting System is a partnership among the Department of Labor, Social Security Administration, IRS, Small Business Administration, Department of Treasury. IRS seeks to partner with federal government agencies and businesses to simplify the employment tax and wage reporting process. This effort has three major components designed to provide taxpayers with alternative and less burdensome filing options: (1) single-point filing, (2) streamlined customer service, and (3) simplified requirements. The IRS will be working with these agencies to develop a multi-jurisdictional authentication for electronic interaction with Government and to improve electronic filing allowing the disclosure of taxpayer information to non-tax agencies for other than tax-related purposes.

Validation and Verification Methodology

The Balanced Measurement System provides a means for collecting and reporting data about the levels of customer satisfaction, employee satisfaction and business results for the organization. It is critical that this information be accurate and reliable because it is used across the organization and by stakeholders and oversight bodies to make informed business decisions on the future direction and course of the IRS.

The IRS follows departmental guidance in the preparation of templates about the verification and validation of data and definitions for performance measures and other terms. Consistent with this guidance, measures for which a process or system is in place to verify and validate the data collected are denoted as “reasonably accurate.” Measures for which there is not a system in place to verify and validate the data collected are denoted as “questionable or unknown accuracy” and a statement is included about the steps being taken to address the accuracy issue in these cases.

Internal Revenue Manual policy on the IRS Balanced Measurement System (IRM 105.4) also requires the completion of detailed templates for performance measures. The templates facilitate a common understanding across the organization of a measurement’s definition, formula, reliability, reporting frequency, and other criteria. The verification and validation of data quality for each measure is the primary responsibility of the respective Business owners. For example, in compiling measurement results for the Annual Program Performance Report, the Business owners provide a Performance Indicator Worksheet that is completed as part of the process and which calls for identification of any limitations to the data provided. These detailed templates for IRS performance measures are available on the IRS website <http://www.irs.ustreas.gov>.

Management Reforms

The President's Management Plan includes five government-wide initiatives: Strategic Management of Human Capital, Budget and Performance Integration, Competitive Sourcing, Improve Financial Management and Expand Electronic Government. In addition, OMB has identified four IRS management programs they believe are in most need of reform: Tax Compliance Measurement, Electronic Filing, Work Process Modernization and Technology Modernization. Progress toward addressing these reforms is addressed through IRS' existing program activities. Measures of IRS program activities serve to show progress in addressing the management reforms. Below is a cross-walk showing the relationship between the management reform and the program activities.

Management Reform	Program Activity									
	Pre-Filing	Filing	Compliance	Research & SOI	Information Services	Information Services Improvement Projects	Business Systems Modernization	EITC	Shared Services	General Management & Administration
Strategic Management of Human Capital										X
Budget and Performance Integration										X
Competitive Sourcing										X
Improve Financial Performance								X		X
Expanding Electronic Government		X					X		X	
IRS Tax Compliance Measurement				X						
IRS Electronic Filing		X					X			
IRS Work Process Modernization		X	X							
IRS Technology Modernization							X			

Table: Management Reform Cross-walk to Program Activity

Below are brief reports on the status of these reform efforts.

Strategic Management of Human Capital

IRS developed a five-year restructuring plan that involves a massive effort to establish a new mission and focus, build a new organizational structure, and streamline business practices. IRS is currently in the fourth year of the five-year restructuring initiative that has shifted the IRS from a geographically based organizational structure to one based on four customer-oriented operating divisions that correspond to key groups of taxpayers. The original five-year plan is being extended through FY 2004 to cover a major redesign of IRS' extensive call site operations, which will increase program specialization and improve the quality of assistance to telephone-based customers.

Organizational and mission changes have made IRS more "citizen-centered" by reducing the number of management layers, and freeing up personnel resources for redeployment to front-line customer support activities. The restructuring effort has removed five management layers, and moved decision making much closer to the customer. Although the full effect of these changes will take place over many years, IRS has already realized the following tangible benefits:

- Decreased the number of management layers by 50 percent in major field organizations.
- Reduced the number of mid- and top-level managers by approximately 500, or 25 percent.
- Moved aggressively to fill over 3,500 new front-line tax administration and customer service positions.
- Redeployed or voluntarily separated over 3,000 employees (mostly in staff/overhead positions) surplus by the restructuring.
- Shifted emphasis from compliance to pre-filing activities as a way to more effectively utilize personnel resources.
- Introduced a number of new personnel management flexibility's and tools to accommodate the new streamlined, flatter organizational structure, and to improve staff quality and performance.

In the area of human resources management, the IRS has adopted a strategic and systematic approach that includes a more sophisticated level of workforce planning, and an enhanced IRS- wide commitment to value and invest in its employees. A fundamental component of this new strategy is to view employees as Human Capital, a strategic asset to be enhanced. In this regard, the IRS has introduced a life-cycle management approach to human resources management that emphasizes the long-term value of its employees, and focuses on providing them the training, tools, structures, incentives and accountability to work effectively in the restructured IRS. This approach is future oriented, relies on workforce planning, involves investment, creates a performance-oriented culture, and aligns human resources management with the core IRS mission.

On August 17, 2001, IRS submitted its Report on IRS Restructuring to Treasury. This report provides a more detailed accounting of IRS' restructuring efforts and will be used by Treasury as part of the Departmental response to the Office of Management and Budget (OMB) request, pursuant to OMB Bulletin 01-07, for a five year restructuring plan.

Budget and Performance Integration

IRS has implemented and is refining a strategic planning, budgeting and performance management process designed to support management in determining strategic goals; establishing measures and targets; determining resource levels; and evaluating results. Performance measures are a critical component of the process. IRS has designated 73 critical operational performance measures from hundreds of existing measures. They are currently the best available measures for assessing progress towards accomplishing the strategic goals and objectives. In addition, they are balanced to emphasize customer satisfaction, employee satisfaction and business results

IRS is developing strategic measures of customer satisfaction, burden, payment compliance, filing compliance, reporting compliance, employee satisfaction and productivity. These measures will more clearly assess IRS success in achieving its mission, goals and objectives, and will be supported by the operational measures.

IRS is developing a pilot for the integration of budgetary resources and performance results for the Customer Service program. The IRS selected its toll-free program as a performance based budgeting pilot. The following chart shows quality and productivity program goal improvements for FY 2000 through FY 2003 for the toll -free program.

TOLL FREE QUALITY AND PRODUCTIVITY PROGRAM GOAL IMPROVEMENTS

MEASURE	FY 2000	FY 2001 W/O REFUND	FY 2001 WITH REFUND	FY 2002	FY 2003
CUSTOMER SATISFACTION					
Customer Satisfaction	3.46	3.58	3.58	3.56 (SB/SE) 3.49 (W & I)	3.63 (SB/SE) 3.49 (W & I)
QUANTITY					
Automated Calls Answered	49.7M	63M	68M	75M	66M
Assistor Calls Answered	32.9M	31M	32.5M	33.7M	36.8M
Assistor Services Provided	33.5M	34.5	35.8M	37.5M	40.8M
CSR Level of Service	59%	62%	55%	71.50%	76.30%
QUALITY					
Tax Law	73%	74%	74%	78%	82%
Accounts Tax Law	60%	63%	63%	72%	78%

Note 1: Assistor Services Provided equals one call answered by each assistor. This is not try of Assistor Calls Answered because one call can be handled by more than one assistor.

Note 2: Began implementation of the screener strategy in FY 2000, but not all calls answered by screeners were captured in the Assistor Services Provided.

Competitive Sourcing

Federal agencies are required to complete public-private or direct conversion competitions for activities performed by the government that are listed on agencies Federal Activities Inventory Reform Act inventories. Agencies are to have completed action on 15 percent of the FTE listed on the FAIR Act inventory by the end of FY 2003. IRS has provided the Department of Treasury an Inventory of Commercial Activities and a separate report on inherently governmental positions.

In support of the 5% FY 2002 goal, the following areas will potentially be included in IRS's competitive sourcing program:

- A seat management pilot trial that provides for the periodic refreshment of desktops and laptops and the encompassing workstations.
- IRS' three Area Distribution Centers that specialize in the distribution of tax forms and publications and internal use printed material.

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- Selected components of IRS' Agency Wide Shared Services organization that will be determined later.

At this time, IRS has not established firm targets for FY 2003 and beyond. However, IRS is exploring the potential to pursue further managed competition in the information technology area and the shared services area. Potential targets will be identified and assessed during the next three to six months.

Improve Financial Performance

IRS' most significant problems related to erroneous payments are found in the Earned Income Tax Credit (EITC) program. EITC is a refundable tax credit for low-income workers. Taxpayers receive this credit by filing a Federal Income Tax Return. Based on internal and external studies, IRS has determined that significant numbers of taxpayers claim the credit but do not meet the eligibility requirements. The reasons for these overclaims range from taxpayers making errors due to the complexity of the law to individuals who file false returns with bogus W-2s to claim the credit.

To address erroneous payments in the EITC program, IRS:

- Revised all taxpayer assistance products to emphasize determination of eligibility. The Form 1040 series instructions have been revised to enhance taxpayers' ability to determine eligibility.
- Implemented all statutory authority to correct returns with incorrect EITC claims when these errors can be determined during processing of returns. Research done by IRS indicates that taxpayers generally do not repeat these errors in subsequent year filings.
- Implemented a 'pre-refund' examination process. For those errors, which can only be corrected through deficiency procedures, IRS has begun selecting returns during the filing season and holding any refund until the completion of the examination.
- Developed a database that uses third party information such as child custody records to determine which returns to select for examination of questionable EITC claims.
- Implemented a multi year integrated strategy to educate tax return preparers regarding common EITC errors, to examine preparer practices, and to propose penalties as appropriate because more than 60 percent of all EITC returns are prepared by paid preparers.
- Continues to measure compliance with EITC statutes. The Tax Year 1999 EITC Compliance Study is scheduled to be completed by the Spring of FY 2002.

To improve overall financial management, IRS is implementing two major systems: the Custodial Accounting Project (CAP) and the Integrated Financial System (IFS). CAP will provide a single, integrated repository of taxpayer account information and collections information to support custodial financial reporting; to produce an initial, critical component of an enterprise data warehouse; and to provide resolution of many long standing financial management weaknesses, including compliance with existing statutes and regulations. CAP will provide a Taxpayer Accounts Sub ledger (TASL) and a Collections Sub ledger (CSL) that directly feed a standard government general ledger. TASL Build 1 will develop the data repository of taxpayer account information and integrate it with the general ledger, making TASL accessible for management analysis and reporting. IRS has completed the Architecture Phase of the CAP. The Systems Development Phase is scheduled to be completed in December 2002, with deployment of Build 1 of TASL scheduled for March 2003.

IFS is being designed to address material weaknesses in financial reporting and to bring the IRS into compliance with the Federal Financial Management Improvement Act (FFMIA). IFS will be deployed in two builds. Build 1 will contain the core financial elements, such as General Ledger, Accounts Receivable, Accounts Payable, Cost Accounting, payroll and funds control. Build 2 will provide for non-core systems, such as fixed assets, travel and procurement. The requirements phase of IFS is scheduled to be completed by November 2001, with procurement of software targeted for April 2002. Deployment of Build 1 is scheduled to be completed by October 2003 and Build 2 should be completed by October 2004.

Expanding Electronic Government

IRS is also expanding its Electronic Tax Administration (ETA) efforts to ultimately provide taxpayers the ability to easily, securely and inexpensively conduct all their interactions with the IRS electronically. E-Services, a Business Systems Modernization project, has been initiated to develop easy-to-use electronic products and services targeted at specific practitioner segments that inform, educate and provide service to the taxpaying public. In addition, e-Services will provide electronic customer account management capabilities to all business, individuals, and other customers in a safe and secure manner. IRS has also initiated improvement projects to make all forms and schedules for 1040 filers available electronically and to improve the content and layout of notices sent to taxpayers.

E-government includes a growing number of methods for procuring products and services, such as using electronic catalogs; reverse auctioning; and, increasing "Business to Government" interfaces. IRS is moving from its current legacy procurement systems to a web based request-tracking system and integrated procurement system. Successful implementation of these systems is critical and resources will be focused on this effort. Once completed, IRS will begin its e-government initiative and focus on applying Government to Business and Business to Government functionality. Requirements will be assessed and a market survey will be conducted to determine the current trends and practices in e-government. At a minimum, this will include:

- Reviewing customer and employee requirements related to e-government.

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- Reviewing federal government requirements from OMB, GSA and others to ensure IRS is in concert with their direction [IRS is currently in compliance with the OMB's FY 2002 goal of posting appropriate solicitations on the government-wide point-of-entry website www.FedBizOpps.gov]
 - Reviewing industry best practices and current trends.

Highlights of IRS' achievements in this area include savings of \$17.3 million for FY 2001 through FY 2003, using reverse auctioning for the purchase of up to 95,000 laptop and desktop computers; and, generating over 500 FTE in savings and cost avoidance in FY 2003 through the use of e-filing and other "e" initiatives.

IRS Tax Compliance Measurement

The IRS established the National Research Program (NRP) Office in April 2000 to explore and develop approaches to measure taxpayer compliance with reporting, filing and payment requirements. One of the guiding principles for this effort is to develop approaches that are less intrusive and less burdensome to taxpayers than prior compliance studies.

Based on its work to date, the NRP Office proposes an approach to measure taxpayer compliance that shifts more of the burden of data collection from taxpayers to the IRS. Essentially, the approach maximizes the use of data already available to the IRS and reduces the need to collect data through face-to-face audits. The approach will measure taxpayer compliance with all three legal requirements: reporting, filing and payment.

The reporting compliance measure will indicate the percent of tax accurately reported. Discussions with stakeholders, and program design and development will continue through the second quarter of 2002. The implementation date has not been set.

The filing compliance measure will indicate the percent of required returns timely filed. Project specifications have been completed and a contract with a vendor to analyze the Consumer Population Survey is in place. Tax Year 1999 baseline and TY 1996-98 historical estimates were received in October 2001.

The payment compliance measure will indicate the percent of tax liability timely paid. Program specifications will be completed in October 2001. Data development will occur in the first quarter of FY 2002. The initial Voluntary Payment Compliance Rate will be delivered by the second quarter of FY 2002.

In addition to providing a better understanding of taxpayer compliance, these measures will support strategic planning and the allocation of resources necessary to address taxpayers' needs, and promote the development of more customer-focused products and services that reduce taxpayer burden and IRS costs.

IRS Electronic Filing

IRS provides individual and business taxpayers the capability to transact and communicate electronically with the IRS including: how they file their tax returns, pay what is owed and receive the assistance and information needed to comply with the tax laws. Technology will be enhanced to allow electronic filing of a full range of returns, eliminate the requirements for separate signature documents, tailor marketing and education programs, and broaden the number of effective payment options. This program will generate over 500 FTE in savings and cost avoidance in FY 2003.

The IRS is developing a multi-year strategy for practitioners and individual taxpayers to interact with the IRS via the Internet. Services will be designed based on customer needs and include access to account information, interactive applications to resolve problems or answer questions, automated services and other "state of the art" applications. E-services will reduce taxpayer burden, expand customer channels of choice, provide increased levels of service customization and enhance compliance.

IRS will increase e-file awareness and usage. Emphasis will be placed on strategies and actions to increase the number of electronically filed returns, increase the number of payments received electronically and on improving the IRS web site. IRS will build a foundation, which includes technical infrastructure, management improvements, Internet services, marketing, and channel management. IRS is developing a proposal to request a change in legislation that would provide an extended due date for electronically filed individual income tax returns. Practitioners and taxpayers will use the Internet to resolve account issues and to access authorized transcripts.

With the growth in electronic filing, IRS management has an important responsibility to ensure the security and integrity of IRS' electronic systems and the confidentiality of taxpayer information. IRS is improving and expanding Personal Identification Number (PIN) programs to allow taxpayers nationwide to file electronically using a self-selected PIN and "shared secrets" known only to the taxpayer and the IRS. Additionally, to further protect taxpayer privacy, new programs are designed to collect the minimum amount of taxpayer information necessary to accomplish tax administration purposes.

IRS Work Process Modernization

IRS is modernizing its Examination, Collection and Accounts Management work processes to improve performance.

Examination Reengineering efforts

The IRS relies on a range of techniques to verify certain items on tax returns: error checks of filed returns, information returns document matching, matching of transaction documents and examinations of books and records. Error checks and document matching are not useful for verifying business income, gain or loss on asset sales, or most itemized deductions. Examinations perform a necessary role in achieving compliance with the tax laws.

The audit process has remained essentially unchanged for many years. With the restructuring and refocusing of IRS resources, it is necessary to determine if the examination process, as currently operating, continues to meet the needs of the Service. The project team will develop an “end to end” examination process, which: selects better returns for examination; focuses more resources on unreported income cases; provides clearer guidelines to promote consistency; and resolves cases sooner. The redesigned guidelines will assure that we are supporting voluntary compliance with a more efficient and effective examination process.

Collection Reengineering efforts

The IRS has a critical need to redesign the processes for managing accounts receivable, and for working accounts to conclusion. Employee satisfaction and business results in Collection are low, in part due to additional policies and procedures instituted as a result of RRA98. This has caused inefficiencies within the Collection operations, and has frustrated employees. In addition, the current workload priority and selection system does not route cases into the most cost effective processing streams. IRS recognizes that certain taxpayers have the ability to resolve their own accounts, while others will require varying degrees of IRS intervention. Currently, the organizational segment most capable of applying the appropriate treatment does not receive cases timely.

The objective of the Collection Re-engineering project is to redesign internal processes, policies and procedures, and to update the methods used for workload selection and inventory delivery. IRS will identify and test taxpayer case characteristics that subsequently will enable us to segment various types of cases and more efficiently route them to the appropriate treatment stream. This should result in a more effective use of our resources. Positive impacts on business results, employee satisfaction and customer satisfaction is expected from these efforts.

Accounts Management

To improve service to taxpayers, IRS has centralized the management of the toll-free telephone system, expanded the hours of operation, committed significant resources to answering telephones, and made a significant investment in new technology. Despite these efforts, additional progress is needed to manage the level of customer demand for toll-free telephone service.

In an effort to improve service, IRS will have Customer Service Representatives trained in specialized subjects to more effectively answer taxpayer questions and facilitate use of the call routing system. We will reengineer the account management process to give our assistants the tools to develop a complete, timely, and accurate view of a taxpayer's information upon initial contact. To provide world-class customer service IRS is developing initiatives to assist taxpayers in satisfying their tax responsibilities; providing easier, more convenient access to tax information and assistance; and improving communication.

IRS Technology Modernization

IRS has made substantial progress since the first release of Business Systems Modernization Funds on June 28, 1999. The IRS has undergone an intensive portfolio prioritization effort, leading to a long-term modernization plan identifying selected modernization projects, a release sequence for each project, and estimated costs for each project. This effort was based on the vision and strategy initiatives that created an enterprise-wide view that unifies the business needs. The IRS has laid the groundwork upon which a technologically advanced foundation is now being built to support a modernized tax administration system. This effort is led and managed by the IRS Commissioner and the Senior Management Team (SMT).

Recently, IRS Customer Communications 2001 (CC 2001) became operational. It provides improved customer service through enhancements to the IRS telephone infrastructure, including network pre-screening of calls, voice recognition for refund status queries from rotary callers. CC 2001 also provides an enhanced telephony infrastructure, including upgrades in the Automated Call Distributors at IRS call centers and routing Automated Collection System calls to Wage and Investment and Small Business/Self-Employed call sites. CC 2001 was the first BSM project to meet the discipline of IRS's Enterprise Life Cycle (ELC) methodology.

IRS has developed a set of interdependent projects that will operate in the modernized environment. The IRS has thoroughly reviewed the tax system work streams within a business process reengineering effort. This process, known as Tax Administration Vision and Strategy (TAVS) developed a vision of future business practices for each work stream. It created operating models that bundle sets of capabilities that meet the differing needs of customer segments at different stages in the taxpayer lifecycle, and identify the business systems and processes that will most quickly provide benefits to customers. The following chart shows proposed improvements.

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- ▶ Information requests:
 - paper average: 23 days
 - e-mail average: 4 days
 - telephone level of service: 53% (FY 1999)
 - ▶ Taxpayer can not resolve problems without IRS staff
 - tax law quality 72%
 - account quality 59%
 - ▶ Refunds in 5-7 weeks
 - ▶ Audits not started until 14-20 months after return is filed
 - ▶ Up to 30% of audits result in "No Change" to the return
 - ▶ Account inquiries at 40% first time resolution
 - ▶ Time to collect outstanding balances: average 2.5 years
 - ▶ Multiple points of data entry
 - ▶ Limited reporting and access to data
 - ▶ Limited measurement capabilities
 - ▶ Multiple stand alone systems that are not integrated
 - ▶ Employee skills and competencies not linked to positions, vacancies, training and employee records



- ▶ Information requests correctly routed and fulfilled at the time of request
- ▶ Robust "self help" capabilities and third-party relationships help to prevent/correct problems
- ▶ Refunds in 2-3 days
- ▶ Tax returns selected for audit within same filing season
- ▶ Reduce unnecessary audits so as to cut "No Change" closings by one half
- ▶ Account inquiries at 80% resolution
- ▶ Collection of outstanding balances: average 6 months
- ▶ Single point of data entry
- ▶ Manager and employee self service access to data and reporting capabilities
- ▶ Automated capabilities for enhanced and focused measurements
- ▶ One integrated data warehouse for HR data
- ▶ Skills and competency database to link to positions, training, job vacancies, employee records, etc.

INFORMATION SECURITY PROGRAM

The IRS must establish adequate security capabilities. While many corrective actions have been taken and substantial resources have and continue to be committed, many more corrective actions and program improvements are needed. The IRS uses a 15-category security assessment framework as the base to track progress while moving toward a more proactive mission assurance approach, which finely threads security risks and nationally driven security policies with the needs and views of all IRS offices down through local operations. The resolution of security weaknesses is a key activity toward establishing adequate Service Wide security.

The IRS has established security program operations in the areas of sensitive system Certification and Accreditation, Computer Systems Incident Response, Disaster Recovery, Critical Infrastructure Protection, Security Awareness and Training and IDRS security program administration. These programs serve as building blocks of a comprehensive security program and of mission assurance. A vital part of establishing a comprehensive security program is development and implementation of security policy, standards, and guidance. In this area, we have established consistent and integrated security standards, policies and guidance to be used by all IRS organizations to carry out their respective responsibilities in accordance with applicable federal laws, regulations, and guidance.

A comprehensive Internal and external security program provides increased assurance that the strategic and tactical goals of the Service will be achieved without disruption, compromise or delay, and is essential to assure the sustainability and integrity of IRS business processes and assets. Both customer service and protection of taxpayer information are high priorities for the IRS. A robust security program is essential to address both of these objectives in an environment where e-service is the preferred mode of customer interaction.

The IRS has already made significant advancements toward achieving implementation in the areas of physical and logical access controls, accurate accounting for magnetic media, background investigation process, and change control procedures for IRS mainframes. Efforts have resulted in many corrective actions. It is vital that a robust Vulnerability Assessment and Analysis process, including security consulting and engineering services continues throughout FY 2002 and 2003 for programs, projects and ongoing operations.

The IRS has formulated a service-wide approach to protection of taxpayer data and critical assets. During FY 2001, basic operations to ensure that IRS has a strong security program enterprise-wide were put in place. The Unauthorized Access (UNAX) program is primarily a preventative program to reduce the instances of unauthorized access of taxpayer records by employees. Added focus was given to the UNAX program by providing supplemental executive training, creating and implementing new employee awareness and training programs, and by increasing emphasis on regular communication with employees about both requirements and penalties. These basic operations, most of which will enter a second year of development in FY 2002, include development and implementation of the Computer Systems Incident Response Center (CSIRC); redesign of the sensitive systems Certification and Accreditation program, development of a rigorous risk management program; and establishment of a Critical Infrastructure Protection program for the IRS. Advancements will position the IRS to ensure survivability of its information systems as these systems move toward more state of the art technology.

In addition, during FY 2001, the IRS began addressing security vulnerabilities in Remittance Processing. While significant improvements have been made, additional work in this area will be required during FY 2002 and FY 2003 to sustain the unqualified financial statement opinion received from GAO in 2001.

The IRS will address financial management control weaknesses related to the Financial Audit. Security controls over remittance processing activities are an area where multiple vulnerability involving many parts of the business operation has been identified. Resolution of these issues is essential to maintain the ability to have a clean Financial Statement opinion each year. While many corrective actions have been taken to resolve these weaknesses, more work is needed to ensure that all weaknesses are corrected at all locations where remittances are handled. The target completion date for resolution of all weaknesses is in FY 2003.

As security awareness grows throughout IRS organizations, there is a growing demand for expert security technical support to provide the expertise needed to achieve business objectives. Most organizations do not now have this kind of expertise available internally. We will build a security technical support capability for long-term initiatives vital to the IRS, and support continued development of a secure information systems infrastructure. In addition, statutory and regulatory changes require the IRS to prepare to handle more classified materials regarding security-related vulnerabilities. Since IRS currently handles very little classified information, preparation will include instituting new levels of physical records security as well as clarifying personnel security issues and additional protections required for information systems processing classified data.

While the IRS already manages a highly-successful vulnerability assessment program, changes are required to support development of a consistent, effective risk management program to support our business activities. This includes further integration of GAO and TIGTA reporting with internal vulnerability tracking to identify trends and enterprise-wide issues. This requires continued development of vulnerability tracking tools and management of vulnerability databases. This will improve the quality of vulnerability information provided to management, supporting better-informed risk management decision-making. As IRS moves toward a more fully integrated systems environment, the ability to track trends across organizations will become increasingly important as a preventative capability.

The IRS participates in government-wide programs that plan for and minimize the risk of catastrophic events on mission achievement. Two of these are Continuity of Government and Weapons of Mass Destruction. These programs provide education and the ability to plan, with other agencies, for response to major disruptive events.

Mission Assurance focuses on transitioning the IRS, as a corporate entity with corporate goals, from the way it does business today to a more secure, effective, efficient and sustainable organization for tomorrow. This is a new "whole view" way of looking at how the IRS can better assure that its tax administration mission is met successfully. This approach is needed to affect a much greater and efficient utilization of increasingly scarce resources and to manage diverse risks. The goal of Mission Assurance is to minimize the mission impact of intrusions, accidents and failures by maintaining the essential properties of critical business processes through (1) resistance to threatening events, (2) recognition of threat

events, and (3) recovery from disruptive events. As the IRS strives to increase the use of e-services, it becomes very important that the network of protections around e-services be fully integrated and woven into the business processes being performed.

The basic security program operations established during the past four years (vulnerability assessments, Certification and Accreditation, Computer Systems Incident Response, risk management, disaster recovery among others) will serve as a foundation for development of a Mission Assurance Program. With sufficient resources provided, these functions will be fully operational at the close of FY 2002. During 2003, the focus will shift to establishing the business case and organizational proposals for Mission Assurance, as well as establishing the partnerships and Centralized Security Management functions necessary to provide risk-based decision support for business owners and other senior executives.

The IRS will continue to conduct reviews at its critical computing centers and campus facilities to identify new vulnerabilities, and to evaluate and test security controls, focusing particular attention upon critical infrastructure systems and the receipt and control area. The review approach is comprehensive, including performing comprehensive reviews of continuity of operations plans, physical security, logical security, communications security, personnel and administration security, operating practices, and software quality assurance activities, and working with officials to successfully develop and implement corrective action plans. We will continue to move toward a comprehensive mission assurance approach by pursuing enterprise-wide security strategies. Priorities will be driven by the strategic direction of the IRS and the state of security of the IRS as measured using the IRS Security Assessment Framework.

Resource and Measures Summary ^{1,2}						
	FY 1999	FY 2000	FY 2001		FY 2002	FY 2003
	Actual	Actual	Plan	Actual	Performance Plan	Performance Plan
Pre-Filing Taxpayer Assistance and Education³						
Budget Authority (\$000s)				\$570,401	\$610,969	\$584,142
Direct FTE				3,280	4,179	4,249
1. Education & Outreach Staff Years	N/A	1,082	1,768	1,224	1,609	1,733
2. Number of Taxpayers Assisted Direct	N/A	N/A	N/A	N/A	3,817,000	4,708,000
3. Number of Taxpayers Assisted Indirect	N/A	N/A	N/A	N/A	13,400,000	29,400,000
4. Volunteer Hours Reported (000s)	2,456	2,275	2,298	2,790	2,908	3,514
5. Number of Volunteer Locations	18,263	18,147	17,472	18,238	18,375	18,375
6. Small Business Outreach Events/Activities	N/A	2,200	371	1,181	2,200	2,500
7. EP/EO Determination Letters*	114,598	109,461	121,000	109,326	190,800	215,300
8. Total Number of Private Letter Rulings Completed*	N/A	1,913	1,920	2,428	2,000	2,100
9. Advanced Pricing Agreements and Pre-Filing Agreements	50	67	202	73	110	117
10. Number of Alternative Treatment Initiatives ⁴	N/A	2700	3,000	3104	510	510

1 FY2001 targets and actual performance for IRS's balanced performance measures will be reported in the FY2001 Treasury Annual Program Performance Report, which is to be provided to Congress by the 29th of March 2002.

2 This performance plan projects significant increases in performance indicators for almost all programs in fiscal years 2002 and 2003. These increases are projected based on goals we have established for increased productivity and effectiveness as a result of the new more focused organization structure and the benefits from technology investments and other improvement projects. They are very aggressive goals and they depend on many assumptions. Therefore, while we are reasonably confident of the positive trend and are committed to achieving these stretch goals, it is likely that some of these goals will not be achieved during the projected time frames. Also, many of the goals are presented as precise numbers so that they can be traced to underlying source documents and calculations. This apparent precision in presentation does not imply that actual results are precisely predictable.

3 Since many of the IRS pre-filing activities are either new or greatly expanded in scope, the performance measures for pre-filing programs are not yet complete and those that are presented are less reliable than those for other programs.

* Balanced Measures

Resource and Measures Summary^{1,2}						
	FY 1999	FY 2000	FY 2001		FY 2002	FY 2003
	Actual	Actual	Plan	Actual	Performance Plan	Performance Plan
11. Electronic Tax Law Questions Answered	251,100	303,758	310,050	264,448	223,877	223,877
12. Number of Taxpayer Advocacy Projects*	N/A	88	88	92	88	88
Filing and Account Services⁵						
Budget Authority (\$000s)				\$1,598,832	\$1,657,342	\$1,761,472
Direct FTE				31,140	31,123	31,635
13. Individual 1040 Series Returns Filed (paper) (000s)	95,380	92,319	87,869	90,586	86,000	81,000
14. Business Returns Filed (paper) (000s)	79,690	81,588	81,467	83,153	87,051	88,648
15. Electronic 1040 Series Returns Filed (000s)	29,320	35,365	42,341	40,222	46,000	52,900
16. Electronic Business Returns Filed (000s)	3,220	3,220	3,715	6,261	6,800	7,500
17. Total Primary Returns Filed Paper and Electronic	207,610	212,492	215,392	220,222	225,851	230,048
18. Percent Individual Returns Filed Electronically*	23.4%	27.8%	32.6%	30.7%	35.0%	39.0%
19. Number of Information Returns Filed Electronically	N/A	N/A	N/A		474,700	614,300
20. Percent of Information Returns Filed Electronically	N/A	N/A	N/A	N/A	34%	42%
21. Number of Non-Paper Information Returns (Mag. Media)	N/A	N/A	N/A	N/A	875,199	772,956
22. Percent of Non-Paper Information Returns (Mag. Media)	N/A	N/A	N/A	N/A	62%	53%
23. Number of Federal Tax Payment Transactions Paid Electronically (000s)*	55,320,000	63,380,000	67,500,000	64,366,000	67,438,000	69,650,000

4 Through FY 2001, this measure counted the number of establishments participating in voluntary agreements. Beginning in FY 2002, the measure only counts the number of new agreements.

5 The Field Assistance function in the new organization structure has been given increased emphasis and scope of responsibility. Performance measures presented here are interim measures while more complete and reliable measures are developed.

* Balanced Measures

Resource and Measures Summary ^{1,2}						
	FY 1999	FY 2000	FY 2001		FY 2002	FY 2003
	Actual	Actual	Plan	Actual	Performance Plan	Performance Plan
24. Number of Downloads from IRS Digital Daily Website (m)	83	149	N/A	317	473	635
25. IRS Digital Daily Website (b)	1.15	1.56	2.00	2.6	3.0	3.0
26. Customer Account Correspondence	11,010,272	16,749,967	17,100,000	19,184,321	18,386,593	18,896,990
27. Customer Account Correspondence Quality	N/A	N/A	N/A	N/A	85%	86%
28. Teletax and Toll-Free Automated Calls Answered	60,800,000	49,702,823	67,792,000	76,117,000	75,000,000	66,000,000
29. Assistor Call Answered	37,900,000	32,300,000	32,682,000	32,091,000	33,749,888	36,794,388
30. Toll-Free Customer Satisfaction*	3.46	3.41	3.58	3.45	3.54	3.56
31. Toll-Free Level of Service*	N/A	59.0%	63.4%	56.0%	71.5%	76.3%
32. Toll-Free Tax Law Quality*	74%	73%	74%	75%	78%	82%
33. Toll-Free Account Quality*	82%	60%	63%	69%	72%	78%
34. Customer Satisfaction Walk-In*	6.43	6.48	6.50	6.40	6.55	6.55
35. Total Returns Prepared	892,968	1,092,691	1,114,000	1,009,390	984,000	935,000
Compliance Services						
Budget Authority (\$000s)				\$3,561,147	\$3,684,170	\$3,881,397
Direct FTE				44,852	45,362	45,959
36. ACS Customer Satisfaction (4 point scale)*	3.32	3.46	3.50	3.46	3.53	3.54
37. ACS Closures – Taxpayer Delinquent Accounts *	2,874,093	1,052,221	1,655,000	1,006,600	1,012,628	1,150,424
38. ACS Closures – Taxpayer Delinquent Investigations*	1,828,885	412,150	752,000	297,791	317,906	TBD

* Balanced Measures

Resource and Measures Summary ^{1,2}						
	FY 1999	FY 2000	FY 2001		FY 2002	FY 2003
	Actual	Actual	Plan	Actual	Performance Plan	Performance Plan
39. ACS Level Of Service*	81%	79%	80%	78%	80%	80%
40. Customer Satisfaction – Field Collection (7 point scale)*	3.89	4.6	4.94	5.01	5.00	5.00
41. Field Collection – Cases Closed – TDA*	951,984	771,455	846,800	757,392	804,085	1,088,967
42. Field Collection – Cases Closed - TDI *	166,808	144,764	146,211	119,451	107,119	135,941
43. Field Collection Quality*	86.0%	84.0%	86.4%	84.0%	85.4%	86.8%
44. Offers in Compromise Processed	49,051	69,514	73,068	97,013	185,000	104,600
45. Automated Underreporter Customer Satisfaction (7 point scale)	N/A	N/A	N/A	N/A	Baseline	TBD
46. Automated Underreporter Closures*	3,367,086	2,888,900	2,859,000	2,511,424	2,919,980	2,963,730
47. Automated Underreporter Paper Quality *	N/A	93%	94%	95%	97%	97%
48. Correspondence Examination Customer Satisfaction (7 point scale)*	3.87	4.04	4.30	4.18	4.45	4.5
49. Total Number of Correspondence Exam Returns Examined	1,302,700	394,754	558,655	650,376	575,216	758,604
50. Correspondence Exam Quality *	91%	70%	72%	71%	74%	76%
51. Field Exam Customer Satisfaction (7 point scale)*	4.08	4.41	4.60	4.65	4.7	5.00
52. Individual Return Examinations > \$100,000*	94,638	63,217	113,699	50,827	54,468	78,048
53. Individual Returns Examinations < \$100,000*	289,698	187,891	152,964	145,144	122,313	157,844
54. Total Individual Returns Examined*	384,336	251,108	266,663	195,971	176,781	235,892

* Balanced Measures

* Balanced Measures

Resource and Measures Summary ^{1,2}						
	FY 1999	FY 2000	FY 2001		FY 2002	FY 2003
	Actual	Actual	Plan	Actual	Performance Plan	Performance Plan
55. Field/Office Exam Case Quality Score*	65%	58%	60%	70%	72%	72%
56. Number of Business Returns Examined*	137,893	103,112	142,441	84,748	81,369	109,556
57. Number of Cases Examined (Large Case)*	416	369	475	417	566	570
58. Number of Returns Closed (Large Case)*	3,807	3,096	3,831	3,710	3,453	3,477
59. Employee Plans and Exempt Organization Customer Satisfaction (7 point scale)*	5.43	5.71	5.70	5.7	5.7	5.75
60. EP/EO Examination Cases Closed*	22,525	19,080	19,300	15,988	11,900	12,300
61. EP/EO Examination Quality*	N/A	83%	83%	73%	81%	83%
62. Innocent Spouses Modules Closed	27,936	55,698	57,659	61,011	65,000	49,823
63. Appeals Cases Closed*	61,507	54,986	73,013	54,748	67,560	97,193
64. Subject Criminal Investigations Completed*	N/A	3,499	N/A	3,340	3,280	3,150
65. Tax Court Cases	45,530	35,962	N/A	31,883	34,100	33,600
66. Tax Court Receipts	20,261	13,478	12,000	14,766	13,500	13,000
67. TAS Closed Cases*	294,993	237,885	244,941	248,011	252,289	256,552
68. TAS Casework Quality Index*	79%	65%	68%	72%	80%	90%
69. Total Enforcement Revenue Collected (\$B) ⁶	32.9	33.8	34.0	33.8	34.8	35.2
70. Agency Wide Employee Satisfaction*	55%	59%	60%	51%	54%	58%
71. Servicewide FTE (including EITC)	N/A	97,074	99,509	97,938	99,901	101,080

⁶ Records of tax enforcement results are used for forecasting, financial planning and resource management. As required by Section 1204(a) of the Restructuring and Reform Act of 1998(PL 105-206) 112 Stat. 685, 1998 and the Balanced Measures Regulation (26CFR Part 801), this information is not used to evaluate employees or suggest production quotas or goals upon them.

* Balanced Measures

Resource and Measures Summary ^{1,2}						
	FY 1999	FY 2000	FY 2001		FY 2002	FY 2003
	Actual	Actual	Plan	Actual	Performance Plan	Performance Plan
72. Number of FTE in Taxpayer Contact Programs (including EITC)	N/A	65,416	67,852	65,730	68,306	70,547
73. FTE per Billion \$ GDP	N/A	10.57%	10.42	10.26%	10.11%	9.98%
Research and SOI						
Budget Authority (\$000s)				\$87,291	\$102,631	\$106,961
Direct FTE				831	913	913
Information Services						
Budget Authority (\$000s)				\$1,584,682	\$1,581,041	\$1,625,993
Direct FTE				7,441	7,499	7,499
IS Improvement Projects						
Budget Authority (\$000s)				\$33,786	\$39,864	\$49,864
Direct FTE				0	0	0
Business Systems Modernization						
Budget Authority (\$000s)				\$93,616	\$391,593	\$450,000
Direct FTE				0	0	0
Earned Income Tax Credit						
Budget Authority (\$000s)				\$149,308	\$153,940	\$154,346
Direct FTE				2,196	2,353	2,353
Shared Services Support						
Budget Authority (\$000s)				\$1,175,700	\$1,101,209	\$1,158,564
Direct FTE				4,640	4,968	4,968

Resource and Measures Summary ^{1,2}						
	FY 1999	FY 2000	FY 2001		FY 2002	FY 2003
	Actual	Actual	Plan	Actual	Performance Plan	Performance Plan
General Management and Administration						
Budget Authority (\$000s)				\$548,435	\$613,451	\$645,649
Direct FTE				3,327	3,504	3,504